Public Sector Performance Audits: Stakeholder Interpretations of Impact

A thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy

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Declaration

I certify that except where due acknowledgement has been made, the work is that of the author alone; the work has not been submitted previously, in whole or in part, to qualify for any other academic award; the content of the thesis is the result of work which has been carried out since the official commencement date of the approved research program; any editorial work, paid or unpaid, carried out by a third party is acknowledged; and, ethics procedures and guidelines have been followed.

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Jana Schmitz
Melbourne, September 2019
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“Es ist nicht Deine Schuld, dass die Welt ist, wie sie ist.
Es wär nur Deine Schuld, wenn sie so bleibt.”

(Die Ärzte, 2003)
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<td>AAS</td>
<td>Australian Auditing Standards</td>
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<td>ACT</td>
<td>Australian Capital Territory</td>
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<td>AG(s)</td>
<td>Auditor(s)-General</td>
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<td>ANAO</td>
<td>Australian National Audit Office</td>
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<td>APS</td>
<td>Australian Public Service</td>
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<td>DTF</td>
<td>Department of Treasury and Finance</td>
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<td>ECA</td>
<td>European Court of Auditors</td>
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<td>EU</td>
<td>European Union</td>
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<td>FY(s)</td>
<td>Financial Year(s)</td>
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<td>GAO</td>
<td>General Accounting Office</td>
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<td>HRDC</td>
<td>Human Resource Development Canada</td>
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<td>INTOSAI</td>
<td>International Organisation of Supreme Audit Institutions</td>
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<td>ISSAI</td>
<td>International Standards of Supreme Audit Institutions</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>LG</td>
<td>Local Government</td>
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<td>MP(s)</td>
<td>Member(s) of Parliament</td>
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<td>NIS</td>
<td>New Institutional Sociology</td>
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<td>NPM</td>
<td>New Public Management</td>
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<td>NSW</td>
<td>New South Wales</td>
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<td>NT</td>
<td>Northern Territory</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>OIT</td>
<td>Old Institutional Theory</td>
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<tr>
<td>OT</td>
<td>Other</td>
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<td>PA(s)</td>
<td>Performance Audit(s)</td>
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<td>PAC</td>
<td>Public Accounts Committee</td>
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<td>PAEC</td>
<td>Public Accounts and Estimates Committee</td>
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<td>SG</td>
<td>State Government</td>
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<td>Queensland</td>
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<td>SA</td>
<td>South Australia</td>
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<td>TAS</td>
<td>Tasmania</td>
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<td>VAGO</td>
<td>Victorian Auditor-General’s Office</td>
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<tr>
<td>VIC</td>
<td>Victoria</td>
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<td>WA</td>
<td>Western Australia</td>
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Abstract

Given the growth and pervasiveness of performance auditing in Australia, it is important to understand the nature of its impacts on stakeholders who are influenced and affected by such audits. Yet extant studies have focused on impact measurement without empirically addressing how performance audit impacts are defined and the factors conditioning such definitions. This study clarifies what multiple key stakeholder groups of performance auditing i.e. auditees, performance auditors, parliamentarians and journalists, understand as performance audit impact. Focused on performance audits reported in Victoria within 2009/2010 to 2015/2016, a sequential three stage mixed-method approach was adopted consisting of document analysis, a survey questionnaire and in-depth semi-structured interviews. Drawing on New Institutional Sociology informed by accountability dimensions as theoretical underpinning, this study demonstrates that managerial, political and public accountability relationships between key stakeholders affect their interpretations of impact. While not all stakeholders feel accountable to other groups, their interpretations of impact appear to be driven by the endeavour to obtain and maintain legitimacy from other key stakeholders for their operations. Empirical explanations have further disclosed that stakeholder interpretations of impact are dependent on their perceived usefulness of performance audits. As opposed to prior studies, this research shows that particularly complex and reform-like changes, if considered timely and necessary, are perceived as useful and therefore impactful. Findings also demonstrate that certain impact definitions provided by different key stakeholder groups are similar, whereas others vary. Besides the more detailed elaboration on previously defined impacts, this research contributes to performance audit literature by affording new definitions of impact and impact-facilitating factors. Providing a comprehensive understanding of the impacts of performance audits among key stakeholder groups, this study makes operational contribution to performance audit practice of Australian Auditors-General Offices and the way in which performance audit outcomes are administered by audited public sector organisations.

Keywords: Public sector, performance auditing, performance audit impact, accountability relationships, New Institutional Sociology, Australia
1 Introduction

1.1 Background

A performance audit (PA) carried out by Supreme Audit Institutions (SAIs) is an independent examination to assess whether public sector programs, systems, activities or entire public organisations are performing in accordance with the principles of economy, efficiency and effectiveness (INTOSAI, 2004; Parker and Jacobs, 2015). The concept of PAs emerged in the late 1980s/early 1990s as a response to an increasing emphasis on performance outcomes and performance accountability associated with the onset of New Public Management (NPM) (Parker et al., 2018; Parker and Jacobs, 2015; Leeuw, 1996; Hood, 1995). Until the 1980s, Auditors-General Offices (AGOs) in Australia carried out their oversight role through traditional financial audits (Gerald, 2015; Wanna et al., 2001; English et al., 2010). However, over the years it became increasingly clear that financial accounts showing how much was spent, did not adequately serve the accountability purpose of demonstrating how well it had been spent or whether value for money had been achieved (Glynn, 1985; Broadbent and Guthrie, 1992; Guthrie and Parker, 1999). Hence, a tool was needed to evaluate those responsible for spending public resources and to examine whether the public sector maximises potential outcomes for the money expended (economy), which government services and programs work well (efficiency), and whether stipulated objectives have been achieved (effectiveness) (Parker and Jacobs, 2015). This was particularly essential considering growing public and parliamentary demands for enhanced accountability, transparency and better public sector performance resulting from increased concerns about the wasteful use of public resources (Wanna et al., 2001; Parker and Guthrie, 1993; Pollitt et al., 1999).

By virtue of its potential to contribute materially to the enhancement of accountability and improvement of public sector performance, PA work has received increasing recognition in various countries and evolved and extended its scope since its early development (Broadbent and Guthrie, 1992; Hood, 1995; Parker, 1986; Dittenhofer, 2001). Today, PAs are an internationally accepted high-profile feature of public administration and have become a well-established key element in the mandate of many SAIs throughout the Commonwealth of Nations, the Organisation for Economic Cooperation and Development (OECD) and the European Union (EU) (Kells, 2011a; Torres et al., 2016; Pollitt and Bouckaert, 2011; Power,

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1 Interchangeable terms for PAs are value-for-money audits (Pollitt et al., 1999; Jacobs, 1998) and efficiency audits (Hamberger, 1989; Radcliffe, 1998). These terms share a common basic definition founded upon the concepts of economy, efficiency and effectiveness.

2 SAIs are national agencies that are responsible for auditing government revenue and spending (World Bank, 2001). In the Westminster system they are referred to as Auditors-General Offices (AGOs).

3 The INTOSAI is an autonomous, non-political and non-governmental institution operating as an umbrella organisation for the external government audit community. At present the INTOSAI has 194 full members – including Australia – and five associated members. The INTOSAI is the publisher of the ISSAI, the fundamental principles according to which members are supposed to conduct audits of public organisations (INTOSAI, 2016).

4 The notion of accountability is defined in detail in section 4.3.
Additionally, SAIs in several other countries have expressed their interest in adopting PA activities (Arthur et al., 2012; Torres et al., 2016).

In Australia, PAs are conducted by AGOs. The Australian National Audit Office (ANAO) at the national level and the AGOs of New South Wales (NSW), Queensland (QLD), Northern Territory (NT), Australian Capital Territory (ACT), Western Australia (WA), Tasmania (TAS) and Victoria (VIC) at the state level regularly undertake PAs (Parker and Jacobs, 2015; Hatherly and Parker, 1988). As argued by Parker and Jacobs (2015), the Australian AGOs’ PA function, institutionalised through the adoption of the NPM, has reached a mature stage, is widely accepted and regarded as central to the exercise of accountability as well as improvement of public sector performance. Australian AGOs are considered as leading practitioners in PA work (Parker and Jacobs, 2015; see also Pollitt and Bouckaert, 2011, who consider Australia as a leader in the adoption of reforms associated with the NPM). Although PAs in Australia are institutionalised, very little is known about their impacts (Parker and Jacobs, 2015; Hatherly and Parker, 1988; Barrett, 2010, 2012). However, since Australian AGOs have been conducting PAs for almost four decades, there is the opportunity to better understand and assess the impacts of PAs. Thus, it is timely that the public sector PA practice and its impacts receive further research attention.

The volume of PA reports published in Victoria increased since 2000. In fact, compared to other Australian state level AGOs, the Victorian Auditor-General’s Office (VAGO) stands out as a major driver in PA work as it produced a significant majority of PA reports within the financial years relevant for this study, i.e. 2009/2010 to 2015/2016. Hence, this thesis concentrates on the well-established PA practice in Victoria, “for which it has received external commendation and recognition from its peers in Australia and overseas jurisdictions” (PAEC, 2010a, p. 23).

1.2 Problem statement and significance of this research

*Impact* is the leitmotif of the International Standards of Supreme Audit Institutions (ISSAI), according to which the main objective of PAs is to constructively improve public sector organisations’ performance in terms of the so-called *three Es*, i.e. economy, efficiency and effectiveness (INTOSAI, 2004, 2012). Although having positive impact on public sector organisations’ performance is the common rationale of SAIs’ PA activities (Desmedt et al., 2017; Kells, 2011b), various accounting scholars claim that PAs are often not as systematically valuable as has been anticipated by regulatory authorities (Power, 1997; Reichborn-Kjennerud, 2015; Torres et al., 2016). As a matter of fact, Morin (2001, p. 116) comes to the conclusion that citizens and taxpayers could have reason to suspect that PAs sometimes serve strictly no purpose “except to lull them with illusions that things will improve and to swallow up more public funds”. The basic argument mounted by critics is that PAs are empty ritualistic forms

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5 Countries with a well-established PA function: Australia (Guthrie and Parker, 1999; Parker and Jacobs, 2015), Canada (Gendron et al., 2007), UK (Sharma, 2007), Scotland (Lapsley and Pong, 2000), US (Johnston, 1988), Israel (Milgrom and Schwartz, 2008), Estonia (Raudla et al., 2015), Netherlands (Weets, 2011), Denmark (Skærbæk and Thorbjørnsen, 2007), Sweden (Grönlund et al., 2011) and Norway (Reichborn-Kjennerud and Johnsen, 2018).

6 The AGO of South Australia (SA) has to date not produced stand-alone PA reports (Parker and Jacobs, 2015; see Appendix 1).

7 Appendix 1 provides a comparative overview of the PA report production across Australian AGOs.
of auditing (Power, 2003a), and hollow rituals of comfort (Power, 1997) that do not deliver added value for society (Bowerman et al., 2000; Braithwaite, 2008; Kells, 2011a). For Power (1996, 1997, 2000) PAs are just part of an explosion of audit activity that emerged from increased demands for transparency and accountability in the public sector, bearing the potential for stifling organisational innovation instead of fostering it. Lonsdale (1999, p. 172) adds that the capability of AGOs to generate positive impacts on public sector performance through PAs is “‘far less straightforward’ than a simple linear model of auditing might imply”.

Against such contentions, there is a growing counter-claim that “performance auditing appears not to be a waste of time and has value” (Van Loocke and Put, 2011, p. 201). Barrett (2010), for instance, argues that PAs contribute to public sector performance by initiating improvements in audited organisations’ economic performance and their efficiency and effectiveness in providing public programs and services. However, in the accounting literature the scope and nature of PA impacts is poorly understood and often said to be difficult to define (Kells and Hodge, 2009; Morin, 2008). In fact, PA impact studies do not provide a homogeneous definition of impact. For this reason, scholars offer various broad classifications of impacts. Some authors base their impact definition on time dimensions, claiming that impacts can emerge immediately, during the PA (Kirkhart, 2000), but also take place shortly after the conclusion of the PA, or considerably later (Turtiainen, 2012; Desmedt et al., 2017). Further, impacts can emerge slowly and subtly (Morin, 2008) or quickly and more explicitly (Morin, 2014; Reichborn-Kjennerud and Johnsen, 2018). Others argue that impacts may take direct or indirect forms, affecting only audited organisation, or also other organisations involved in the audited organisation’s activities (Van der Loocke and Put, 2011). In terms of the dimensions of PA impacts, it has been noted that sometimes PAs may have hardly any effect, whereas at other times they may result in palace revolutions, leading to step changes and reforms in the public sector (Morin, 2004; Milgrom and Schwartz, 2008). Moreover, impacts can be desired or undesired, may have intended and unintended consequences, and be perceived as more or less useful by stakeholders, which in turn, may potentially influence the contribution of PAs to the improvement of public sector performance.8 While the central debate in the literature has focused more on the timeliness and dimension of impacts, what relevant stakeholders consider as PA impact has only vaguely been explored and remains a contested issue (Trembley and Malsch, 2015; Desmedt et al., 2017; Reichborn-Kjennerud and Vabo, 2017; Van Loocke and Put, 2011).

Public sector programs and services continue to grow in magnitude and complexity, while citizens and taxpayers demand higher-quality services and more transparent, reliable information on how their money is spent (Dittenhofer, 2001). Therefore, improving the performance of the public sector and strengthening the accountability is an important issue (Nutley et al., 2012). As PAs may contribute to better services and programs, and more accountable and responsive governance of public resources, an increasing number of governments worldwide, including Australia, invest in the expansion of PA activities and the improvement of PA methodologies (Van Loocke and Put, 2011; Waring and Morgan, 2007; Parker and Jacobs, 2015). This development in conjunction with the unclear definition of PA impact gives rise to the question of the nature of PA impacts and highlights the strong need for in-depth empirical research on those impacts (Bowerman et al., 2000). This is further emphasised by Kells (2011b, p. 87) who contends that without the better understanding of the

8 For an extensive overview of PA impacts as defined by previous academic research studies, see chapter 3.
nature of PAs and its impacts, “there is a risk that people will over or under-appreciate its usefulness as a mechanism of public sector scrutiny”.

How auditees, Members of Parliament (MPs), performance auditors, and journalists perceive their accountability relationships in the PA context and what they consider as impacts, has not been subject of extensive research in previous PA literature. The significance of examining the views of multiple stakeholders is emphasised by the INTOSAI (2004, p. 19):

“[I]n order to assess the impact […], it is in general always necessary to collect information not only on the audited institutions and their activities and interactions, but also on other stakeholders […]. This is of course of special interest when […] actions of other stakeholders may influence the impact.”

As relevant stakeholder groups may actively partake in how other stakeholders view their accountability relationships and PA impacts (Justesen and Skærbæk, 2010), examining multiple relevant stakeholder groups’ perceptions and interpretations is necessary. This claim has further been highlighted by Desmedt et al. (2017) and Kells (2011 a and b) who claim that it is essential to extend the unidimensional view applied by previous research studies, which have either examined the subjective perceptions of individual stakeholder groups, or focused on the relationship between performance auditors and auditees. This current research study adds a multi-perspective approach to the issue of PA impacts by examining how auditees, MPs, performance auditors, and journalists as relevant key stakeholder groups interpret impact and perceive their accountability relationships.

1.3 Research objective and research questions

This thesis aims to develop a conceptual map that explicates the nature and scope of PA impacts and their conditioning context based on key stakeholder groups’ accountability relationships. For this purpose, this thesis intends to provide insights into what key stakeholder groups, i.e. auditees, performance auditors, MPs, and journalists understand as impact. More specifically, this thesis provides (1) an empirical examination of the way in which key stakeholder groups’ accountability relationships influence their perceptions of PAs and (2) a multi-perspective view of PA impacts capturing key stakeholders’ interpretations. The conceptual map takes the form of a system structure that visualises impacts and impact-facilitating factors identified by key stakeholders and demonstrates how those are interlinked (Jabareen, 2009). The map summarises stakeholders’ perceptions and interpretations of impacts and provides a comprehensive understanding of the research phenomenon.

By capturing multiple stakeholder groups’ perceptions and interpretations, this study challenges the views adopted by previous PA studies that focus either on individual stakeholder groups’ perceptions or on the dyadic relationship between performance auditors and auditees. Through the conceptual map, key stakeholders relevant for this study will be afforded an opportunity to gain a comprehensive mutual understanding of what the other groups interpret as impact. Thereby, stakeholder groups’ awareness of the needs and interests of other groups are increased. In examining the perceptions and interpretations of key stakeholders, this research study addresses three inter-related Research Questions (RQs):

RQ1: How do accountability relationships between key stakeholders influence their perceptions of performance audits?
An increasing number of accounting academics have argued that accountability relationships between stakeholders may enhance or undermine the prospective impacts of PAs (Parker and Jacobs, 2015; Tilllema and ter Bogt, 2010; Lonsdale, 2000). Nevertheless, as mentioned earlier, few studies have examined PA impacts through an accountability lens. The necessity to provide more empirical evidence relating to accountability relationships and their effects in the PA context is emphasised by Bowerman (1996) who urges scholars to rediscover the accountability roots of PAs. As PAs form a part of a state’s “accountability apparatus” (Keen, 1999, p. 510), an examination of impacts through an accountability lens is arguably crucial. Bowerman’s (1996) argument is further underlined by Lonsdale (2008) who contends that different relationships may have varying influence as the status of some stakeholders may carry considerable weight. Given the complexity of accountability relationships between auditees, performance auditors, MPs and journalists (Mulgan, 1997, 2001; Sinclair, 1995; Luke, 2010), RQ1 is expected to disclose dominant accountability relationships. Building on the findings of RQ1, RQ2 elaborates on key stakeholders’ interpretations of PA impacts.

**RQ2: What do relevant stakeholder groups involved in performance auditing interpret as impact?**

Depending on what auditees as target of PAs interpret as impact and whether they consider PAs as useful, auditees may respond to PA outcomes accordingly (Power, 2000; Morin, 2001). This, in turn, may affect the perspectives and actions of the other key stakeholder groups. Hence, it is essential to investigate what the impacts of PAs are from auditees’ perspective. The roles of the other key stakeholders have gained more significance as previous studies found that their engagement and interaction are likely to affect PA impacts through accountability mechanisms (Reichborn-Kjennerud and Johnsen, 2018; Bovens, 2007; Parker and Jacobs, 2015). MPs play important roles not only in terms of the accountability setting but also because they are authorised to undertake follow-up inquiries and summon auditees to appear at public hearings (Morin, 2008). Given the legitimacy-conferring status and statutory nature of the Parliament of Victoria, how MPs interpret impacts may significantly influence the accountability mechanism, auditees’ implementation of recommendations, and ultimately, PAs’ contribution to the performance improvement of the Victorian public sector.

The media as an information provider and issue raiser is a conduit for reaching citizens and taxpayers. In the PA setting, Parker and Jacobs (2015) view the media as catalyst for attracting parliament’s attention to particular public sector issues. Following Alon (2007) and Blume and Voigt (2007), the media may not only be able to channel stakeholders’ interests but may also have the power to influence PA results. Nebenzahl (1975, pp. 22-3) calls the media “a desired, almost vital, supplement to the effectiveness of the audit”. Scholars’ observations of the media in the PA setting give reason to analyse what journalists understand as impact and how their media coverage of PA-related issues influences other key stakeholders.

Although a stakeholder of PA activities in terms of the conduct of the audits, VAGO is not itself affected by the outcomes of its audits (Power, 2003b; Mulgan, 1997, 2000; Gendron et al., 2001). Nevertheless, performance auditors’ perspectives are important as they allow the researcher to contextualise the interpretations and perceptions held by other stakeholder groups in the PA setting in Victoria. The final RQ is concerned with key stakeholders’ perceived usefulness of PAs in terms of changes that resulted from PAs. Thereby, the view of the

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9 See sections 4.3-4.3.3.3 for a detailed explanation of accountability relationships and the different dimensions of those.
INTOSAI (2004, p. 57), that “[t]he proposed outcome [of performance audits] should be judged in terms of “usefulness”” is adopted.

RQ3: To what extent have performance audits been perceived as useful by key stakeholders in terms of changes made to audited organisations?

According to Hellman (2006) audits are useful when audit findings are perceived to present a strong argument for change within the organisation. Often described as the initiator or vehicle of organisational change (Power, 1999), PAs are supposed to bring useful changes to audited organisations that lead to performance improvements with regards to the three Es (Raudla et al., 2015). This, however, as argued in previous studies, is not necessarily the case (Van Loocke and Put, 2011). This thesis refers to audit usefulness as the value that key stakeholder groups attribute to induced changes in terms of improvements with due regard to the three Es (Wade, 2008; Morin, 2004). Previous impact studies provide empirical evidence that auditees’ perceptions of the usefulness of suggested changes may be an indicator of the likely effective implementation of those changes (Raudla et al., 2015; Torres et al., 2016; Morin, 2014). Perceptions of the usefulness of recommended changes held by stakeholders other than auditees have, however, not yet been investigated, although findings from previous studies emphasise the importance of the media and parliament and the effects they have in terms of PA impacts (Reichborn-Kjennerud 2013b; Morin 2001, 2004). To understand the perceived usefulness of organisational changes, a serious effort is required to uncover and explore the ideas, beliefs, and values of relevant members of the PA network (Greenwood and Hinings, 1993).

1.4 Theoretical framework

The theoretical framework applied to this research study consists of a macro theory, New Institutional Sociology (NIS), informed by different dimensions of accountability relationships. NIS as the core theory employed, shapes the boundaries of this thesis and enhances the key elements essential for this study. This study argues that PA work in Victoria, including its constituting regulatory framework and network of stakeholders is highly institutionalised and is therefore applicable for investigation through the lens of NIS (Fogarty, 1996; Ritti and Silver, 1986). As the main focus of NIS is the organisational field level, where institutional actors interact (Scott, 2014; Owen-Smith and Powell, 2008; Greenwood and Hinings, 1996), NIS allows for an extensive examination of key stakeholders’ accountability relationships (Dillard et al., 2004; Ryan et al., 2002). Embedding dimensions of accountability relationships within NIS helps the author to better understand the external factors that shape the formation of accountability relationships and how those accountability relationships influence key stakeholders’ perceptions of PA impacts. Accountability relationships are classified under the dimensions of political (Bovens, 2007), public (Mulgan, 1997) and managerial (Sinclair, 1995) accountabilities.

1.5 Research design

The primary objective of this research study is to gain comprehensive insights into key stakeholders’ perceptions and interpretations by exploring how and why they come to be held and by gaining understanding of the complexities of the conditioning institutional context that

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10 Meyer and Rowan (1977, p. 341) define institutionalisation as the process through which “social processes, obligations, or actualities come to take on a rule-like status in social thought and action”.
influences their formulation (Parker, 2008, 2012; O’Dwyer et al., 2005). Exploring the dimensions of accountability relationships and the nature and scope of PA impacts, this research adopts a three-phased sequential mixed-methods research design that is characterised by the dominance of qualitative methods (Teddlie and Tashakkori, 2009):

1) in-depth analysis of publicly available documents, reports, and media articles (QUAL1);
2) online survey questionnaire to auditees (quan); and
3) in-depth semi-structured interviews with auditees, MPs and journalists (QUAL2).

Each data collection phase focuses on stakeholder groups’ perceptions of accountability relationships and interpretations of PA impacts.

1.6 **Scope and limitations**

This research study limits its focus to the perceptions and interpretations of auditees, performance auditors, MPs and journalists, who experienced or were involved in PAs conducted by VAGO within the financial years of 2009/2010 – 2015/2016. Therefore, for QUAL1, the researcher only considers documents and reports related to PAs undertaken during the relevant time period. Further, survey and interview participants were selected based on the criterion to have been involved in PAs conducted within the relevant period under study. PAs undertaken after 2015/16 have not been included due to their recency and, hence, as yet limited likely impact. Given the generally high turnover of public sector officers in the Victorian public sector, expanding the study period further back in time would have made the identification of relevant and informed representatives of every key stakeholder group exceedingly difficult. Given the seven-year period of PA reports that the thesis covers, extensive effort was required to trace relevant officials, and even then, there was an associated limitation of employee turnover and the loss of organisational memory.

1.7 **Structure of the research study**

This research study is organised into ten chapters. **Chapter one** outlined the purpose of the research, the explicit statement of the problem addressed, and the significance of the study. Further, the research objective was presented as well as relevant RQs. The following chapter, **chapter two**, provides an overview of the setting for the research study, including the policy environment, the roles of relevant key stakeholders and their relationships. Additionally, the intended objectives of PAs are explained, and the audit process is outlined. Thereafter, **chapter three** reviews and critically evaluates previous literature on PA impacts and locates this study’s position in the literature. Building on these insights, this chapter also identifies areas for further inquiry into PA impacts, which this study seeks to explore. In the **fourth chapter**, the underpinning theoretical framework is outlined and relevant theoretical NIS concepts as well as accountability dimensions and relationships are presented. Following the overview of the theoretical lens through which the research topic is examined, **chapter five** summarises the research design and methods employed. The relevance and contribution of all three phases of the mixed-method approach are depicted. It is further explained how qualitative and quantitative data will be analysed. While **chapter six** presents findings from this study that address RQ1, which is concerned with stakeholders’ accountability relationships, **chapter seven** and **chapter eight** are dedicated to the presentation of results related to RQ2. More precisely, **chapter seven** outlines what key stakeholders define as impacts emerging from the formal PA process, while **chapter eight** focuses on impacts resulting from the interaction between relevant key stakeholder groups. Addressing RQ3, **chapter nine** reflects on key stakeholders’ perceived usefulness of organisational changes made to audited organisations. **Chapter ten** culminates in the illustration of the conceptual map. Moreover, conclusions drawn
in chapters six, seven, eight and nine are conclusively linked to existent perspectives and assumptions offered by academics of previous PA studies. Also presented in chapter ten are the contributions this study makes to the different literatures. Chapter ten completes by providing practical and theoretical implications, indicating limitations of this research study and proposing related issues for future research.
2 Insights into performance auditing in Australia

2.1 Introduction

This chapter provides the background to PA practice in Victoria. First, insights into PA activities in the NPM era are provided. Then, PA work is differentiated from other forms of auditing and PA objectives are introduced. After elaborating on PA activities in the context of the Westminster system, the PA process in Victoria is outlined. Finally, key stakeholders are identified and introduced and VAGO’s PA process is described.

2.2 The role of performance auditing in New Public Management

NPM, the public sector reform of the past decades, represents a paradigmatic shift from the traditional bureaucratic model of public administration towards a performance-focused managerialist approach (Hood, 1991; O’Flynn, 2007; Halachmi, 2002b and c; Barzelay, 2002). In the accounting literature, it is claimed that NPM is neither a well-defined term, nor a coherent set of ideas. In fact, NPM is said to have a hybrid character and generally serves as an umbrella term for a collection of implemented reforms in the public sector (Van de Walle and Hammerschmid, 2011; Wegrich, 2009). This is also reflected in the language used by international accounting scholars to describe NPM, for instance, as businesslike mechanisms, market-based public administration, managerialism, and entrepreneurial government (Hughes, 1992; Ter Bogt et al., 2010; Barzelay, 2002).

NPM places a new emphasis on more efficient and effective management and delivery of public sector programs and services leading to the gradual replacement of the rules-based and process-driven routines. Overall, NPM introduced more results-based accountability, with a focus on identifying desired outcomes, setting performance objectives, and measuring the extent of accomplishment of those objectives (Gerald, 2015). The key doctrinal components of NPM as argued by Leeuw (1996) are economy, efficiency and effectiveness of public sector organisations. Highlighting the changing accountability relationships following the adoption of the NPM model, Parker and Gould (1999, p. 110) add that in this ‘new world’,

“public sector management has been transformed from being administrators and custodians of resources to being accountable managers empowered with greater delegated authority.”

Accounting literature on the origins of PA work clearly illustrates that PAs emerged as a consequence of NPM (Guthrie and Parker, 1999). Barzelay (1997), for instance, considers the adoption of PA activities by AGOs as an action rationalised by NPM, while Cooper et al. (2012) agree that the greater emphasis on public sector performance has been the stimulus for PA activities. With regards to their PA mandate, Mulgan (2001, p. 28) considers AGOs as “enthusiastic advocates” and “allies” of the NPM system, that offer assistance to reorient the public sector towards a result-oriented concern focused on economy, efficiency and effectiveness, and away from a concentration purely on procedures and processes. Given the shared concern with economy, efficiency and effectiveness of public resources (Parker and Jacobs, 2015; Jacobs, 1998; Guthrie, 1987) and the government’s new accountability for outputs and outcomes (Waring and Morgan, 2007; Funnell, 2003), Leeuw’s (1996) claim that “NPM has goals that converge with the goals of PA” attests the link between NPM and PA activities. The strong link between PAs and NPM has been referred to by English and Skærbæk (2007, p. 239) as “mutual co-dependency”.

Countries such as Australia, New Zealand and the UK – described by Pollitt and Bouckaert (2011, p. 117) as the “core NPM group” – as well as many other nations, implemented NPM
in the late 1980s/early 1990s and onwards (English et al., 2005; Newberry and Pallot, 2005; O’Flynn, 2007). With the institutionalisation of PA work in Australia as part of the NPM model (Brignall and Modell, 2000; Clark and de Martinis, 2003), the number of PAs has increased over the past decades (Parker and Jacobs, 2015; Hoque and Thiagarajah, 2015).

2.3 Public sector performance auditing: definitions and explanations

The notion of PA defies a universally acceptable definition (Bawole and Ibrahim, 2016; Thomas, 2006). In general, PAs have been described as systematic, objective assessments of the accomplishment of a single or clearly identifiable group of activities, systems, programs or organisations for the purpose of determining and improving its effectiveness, economy, or efficiency (Parker and Jacobs, 2015; Pollitt et al., 1999; INTOSAI, 2004). At a practical level, PAs are of great significance for citizens, taxpayers, politicians and the media, allowing them to gain insights into the performance and outcomes of public sector operations (INTOSAI, 2004), whereas, at a more abstract level, PAs are important for the health and vitality of democratic governance (Pollitt et al., 1999). PA work does not have its roots in private sector forms of auditing but is, in fact, “a distinct public sector function, with AGs the leading proponents of the discipline” (PAEC, 2010a, p. 23).

While financial audits assess the accuracy and fairness of both the accounting procedures and the financial statements reported by the audited organisations, PAs are neither checklist-based nor limited to the examination of accurately reported financial transactions (Percy, 2001: INTOSAI, 2004). Instead, PAs are independent examinations carried out on a non-recurring basis to control selected issues at a given point in time (INTOSAI, 2004). Accordingly, McCubbins and Schwartz (1984, p. 165), characterise PAs as a “fire alarm” rather than a “police patrol”. In contrast to financial audits, PAs intend to solve complex and varied questions and go beyond neutral monitoring, with their results summarised in publicly available PA reports that contain recommendations for improvements (Funkhouser, 2011).

Several PA studies have revealed that PAs are not unitary processes but rather heterogeneous (Pollitt, 2003), mutable (English and Guthrie, 1991), social (Jacobs, 1998), and constantly evolving (Power, 1997) mechanisms. Guthrie and Parker (1999) in their study on ANAO PAs argue that PAs are malleable social constructs, which are largely formed by their contextual surroundings such as the political, economic and social climate that play a significant role in shaping the dynamics of PAs. PA work as social construct changes over time as it is influenced by the perspectives and interactions of a range of stakeholders as part of a dramatic play combining actors and their social settings (Guthrie and Parker, 1999).

Even though INTOSAI (2004) clearly states what PAs should entail, there is no standardised approach. Thus, the practical application varies from country to country and can even have different purposes and take diverse forms within countries (Öhman, 2015; Pollitt, 2003; Grönlund et al., 2011). Nichol (2007) exemplifies that in Australia one state audit law requires performance auditors to assess the efficiency and economy of public sector organisations’ use of resources, but excludes the assessment of the effectiveness, while under another state audit law, the focus is on all three aspects, i.e. economy, efficiency and effectiveness. Contending that SAIs have developed and shaped their PA practice in accordance with the needs of their specific environments, Jacobs (1998) and Lonsdale (2011) indicate that the nature of AGOs’ PA practice depends upon the legislative and institutional setting. However, it has also been found by Guthrie and Parker (1999) and English (2007) that despite PA legislation remaining unchanged over time, different sequential AGs interpreted the same piece of legislation differently and redefined the scope of PA practice. Although PA practice in various countries show similarities, it became clear that different approaches are used (Parker and Jacobs, 2015).
2.3.1 Objectives of performance auditing

PA literature ascribes two main objectives to PA practice: primarily, PAs have a performance-improvement purpose (Parker and Guthrie, 1993; Barzelay, 1996; Pollitt and Summa, 1997; Hossain, 2010). Accordingly, it is the objective of PAs to examine whether public sector organisations, their programs or services have been operated with due regard to the three Es and based on this evaluation, to encourage continuous improvement of public administration (Nutley et al., 2012; Lonsdale, 2000; Parker et al., 2018).

Secondly, as a component of the state’s accountability apparatus (Keen, 1999), PAs seek to scrutinise public sector spending and to provide parliament and the public with assurance of the responsible and accountable management of public resources (Hossain, 2010; Waring and Morgan, 2007). These PA objectives are widely acknowledged and supported by the literature (Kells, 2011a; Johnsen et al., 2001; Bawole and Ibrahim, 2016). The following sections describe the elements of efficiency, effectiveness and economy in more detail and outline PAs’ accountability purpose.

2.3.1.1 Economy, efficiency and effectiveness

The concept of economy is predominantly concerned with inputs (Cooper et al., 2012). Inputs can be financial resources and physical resources like human resources (Waring and Morgan, 2007; Lonsdale, 2011). Following Barzelay (1996) and Gray (1993), the concept of economy is about the elimination of waste and the minimisation of costs for resources utilised in the provision of services and programs. Thus, PAs of economy assess whether available resources have been used optimally, whether chosen inputs represent the most economical use of public funds, and if the quality and the quantity of inputs are suitably co-ordinated (INTOSAI, 2004; Gerald, 2015; English et al., 2010).

The concepts of economy and efficiency are closely related. Following Barzelay (1996, p. 20) efficiency means “achieving an optimal process for transforming inputs into outputs”. Therefore, the central issue of the concept of efficiency concerns the relationship between resources deployed and the results of using those inputs (Cooper et al., 2012; Dittenhofer, 2001). Efficiency is a measure of the success with which inputs have been utilised to produce the outputs essential to fulfil public sector objectives to achieve desirable outcomes (Cooper et al., 2012). The main question is whether inputs have been ideally used or whether similar or the same results in terms of quality of public services could have been achieved using fewer human, financial or other resources (Lonsdale, 2011; Gerald, 2015). English et al. (2010, p. 65) refer to efficiency simply as “spending well” while for INTOSAI (2004, p. 20) efficiency is “about getting the most or best output from available resources”.

Effectiveness is considered as a goal-attainment concept concerned with the relationship between the intended and actual results of public spending (English et al., 2010; INTOSAI, 2004). Cooper et al. (2012) distinguish between administrative effectiveness which depends upon processes that help public sector organisations to achieve their tasks, and program effectiveness, which assesses whether public programs successfully achieve stipulated aims or objectives. Performance auditors may assess the level of effectiveness of public services by comparing the outcomes with the goals set down in the objectives (Halachmi, 2002c; Lonsdale, 2011). Various authors such as Pollitt et al. (1999), Barzelay (1996) and Grönlund et al. (2011) argue that the three concepts are interconnected, as illustrated by Figure 1.
Yamamoto and Watanabe (1989) for instance contend that efficiency includes economy as the concept of economy is concerned with the ratio of inputs to outputs. Further, claims were brought forward by Kells and Hodge (2009) that efficiency embraces effectiveness because efficiency includes the notion that the right mixture of outputs is produced. Given the dissent in the accounting literature on the definitions of the three terms, English et al. (2010, p. 66), contend that “what spending less, spending well and spending wisely means has to be defined in the context of a particular PA”. While a PA may not necessarily seek to reach conclusions on all three Es, the INTOSAI (2004, p. 19) argues that “it may be of limited benefit to examine aspects of economy or efficiency of activities in isolation without also considering, at least briefly, their effectiveness”.

In studies of contemporary PA practice in Australia, Parker and Jacobs (2015) and Parker et al. (2018) discovered that PAs conducted between 2001 and 2012 have not always focussed on all three Es. Whereas AGOs in NSW, VIC, QLD, NT and TAS extensively refer to economy, efficiency and effectiveness in PA reports, AGOs in ACT and WA as well as the ANAO frequently reach conclusions on efficiency and effectiveness while employing the term economy to a much lesser extent. Acknowledging that all three Es have been observable to various degrees, Parker and Jacobs (2015, p. 6) discovered that in Australia the concept of economy has gradually received less emphasis, in contrast to efficiency and effectiveness that have become the prime foci for PAs. Recognising what Guthrie (1989, p. 56) refers to as the “varied usage of ‘performance auditing’ in practice”, the authors conclude that across Australian jurisdictions, PAs are subject to different concepts that they can encompass. The fact that the concepts of economy, efficiency and effectiveness anchored in the NPM are not always translated into PA activities in practice, emphasises Skærbæk’s (2009) call for more research on PA practice. Nevertheless, PAs encompass more than the assessment of the three Es (Glynn, 1985; Kells and Hodge, 2009). Following Lonsdale’s (2000) argument, PAs also intend to enhance accountability for performance.

2.3.1.2 Accountability

PAs are considered as a vehicle for improving accountability in the public sector as they scrutinise and evaluate how well those responsible have achieved predefined goals and met
other requirements that they are fully accountable for (INTOSAI, 2004; Lonsdale et al., 2011; Irawan, 2015; Barzelay, 1997). Furubu (2011) and Lonsdale and Bemelmans-Videc (2007) regard accountability as the main purpose of PA, with other outcomes, such as performance improvement, as positive side-effects. Mulgan (2001) and Guthrie (1989) suggest that holding individuals or organisations accountable for attaining reasonable levels of economy, efficiency and effectiveness is an appropriate strategy for optimising public sector performance. Hughes (1998) contends that it is this sense of accountability that is emphasised by advocates of NPM. ISSAI 300, *Fundamental Principles of Performance Auditing* (INTOSAI, 2012, p. 3), emphasised more specifically that the PA objectives of enhancing accountability and improving performance are interrelated:

“Performance auditing promotes accountability by assisting those with governance and oversight responsibilities to improve performance. It does this by examining whether decisions by [...] the executive are efficiently and effectively prepared and implemented, and whether taxpayers or citizens have received value for money.”

Nevertheless, several authors are inconclusive on whether PA in practice can ensure both enhanced accountability and performance improvement (Leeuw, 1996; Halachmi, 2002a; Bawole and Ibrahim, 2016). PAs may help the accountability mechanism in the public sector by providing answers to “Was it done right?”, “Who is answerable to whom?”, “What must be reported and who decides it?” and “Who is superior to whom?” (Halachmi, 2002a, pp. 371-2). Such a process may, however, be perceived by auditees as discouragement to innovate and implement change and may therefore become an obstacle to innovation (Halachmi, 2002a; Barrett, 2011). Similarly, Dubnick (2005) argues that the idea of enhanced accountability improving public sector performance has been accepted without careful examination: several accounting scholars speak of an *accountability paradox* (Funkhouser, 2011; Bouckaert and Peters, 2002; Halachmi, 2002b; Halachmi and Bouckaert, 1994), which implies that more accountability may, in fact, diminish or impede organisational performance:

“[i]ncreasing efforts to improve performance through accountability tend to have the opposite effect. Rather than acting as a driver for desired levels of improved performance, accountability tends to be a ‘breaker’ by either slowing down or stopping improvements.” (Dubnick, 2005, p. 396)

Following Mayne (2007) and Perrin et al. (2007), this paradox can only be overcome if the accountability process is embedded in a mature debate about what has worked and what has not worked in the past, and what will be done differently in the future. That, following Perrin et al. (2007), implies organisational learning.

### 2.4 Performance auditing in its relevant institutional context

AGO{s operate in different institutional environments (see section 4.2.2). Depending on the respective institutional environment, differences have emerged in views of the concept of PAs in theory and practice (Funnell, 2003). Situating PAs in the relevant institutional context is of great importance as regulations, laws and other frameworks anchored in the institutional environment shape AGOs PA mandate, which may affect potential impacts of PAs as well as accountability relationships between stakeholders (Parker et al., 2018; Parker and Jacobs, 2015; Torres et al., 2016).

Australia, Canada, UK and New Zealand – referred to by Aucoin (2012) as the major Westminster systems – operate under the Westminster model of government named after the Palace of Westminster in London (PAEC, 2010a; VPSC, 2019). The Westminster system is characterised by three arms of government, the legislature (or parliament), the executive (the elected government as a group of Cabinet ministers) and the judiciary, which is independent
from parliament (PAEC, 2010a; VPSC, 2019). Reflecting Australia’s early historical development as a former British colony, all parliaments in Australia follow the Westminster system (Parliament of Australia, 2016; Parliament of Victoria, 2012). Under the Westminster model all authority for government activity ultimately stems from parliament (PAEC, 2010a; Cooper et al., 2012). The Westminster model prescribes that public sector organisations are accountable to parliament for the powers conferred on them by parliament, their use of public resources and the outcomes achieved through the delivery of public services (VPSC, 2019; VAGO, 2017c). It is an enduring and fundamental principle of the Westminster system that through parliament, public sector organisations are ultimately answerable and accountable to the public for governing in the best interests of all citizens and taxpayers (Funnell, 2003; Parker and Gould, 1999; Hughes, 1992). Given this multilevel system of political accountability (see section 4.3.3.1), which Parker and Gould (1999) refer to as chain of accountability, the Westminster system is often described as a ‘learning organisation’, which is built on a “retrospective cycle of discussion, evaluation, argument and blame” (Sutherland, 1996, p. 2).

The Westminster system authorises parliament to scrutinise the performance of the government, for instance, in delivering programs and services, through various mechanisms (Aucoin and Heintzman, 2000; Stone, 1995; Day and Klein, 1987). For instance, parliament can seek independent assistance from AGOs. The Department of Treasury and Finance (DTF) in Victoria describes the role and scope of responsibilities of the AG in the Westminster model in the following terms (DTF cited in PAEC, 2010a, p. 21):

“The position of Auditor-General [AG] within this model is considered a crucial link in the process of accountability to the taxpayer on the utilisation of public funding. The principal role of the Auditor-General is to provide assurance to Parliament on accountability and performance of the Executive Government.”

In 1990, the Victorian AG and his office received discretionary authority from parliament to conduct PAs (PAEC, 2010a; VAGO, 2010b). VAGO’s mandate is established by the Audit Act 1994 (Vic), which constitutes the legislative framework for its operating powers as parliament’s auditor and identifies its responsibilities (VAGO, 2016a). Section 15(1) of the Audit Act 1994 empowers VAGO to regularly conduct PAs:

“The Auditor-General may conduct any audit he or she considers necessary to determine – (a) whether an authority is achieving its objectives effectively and doing so economically and efficiently and in compliance with all relevant Acts; or (b) whether the operations or activities of the whole or any part of the Victorian public sector (whether or not those operations or activities are being performed by an authority or authorities) are being performed effectively, economically and efficiently in compliance with all relevant Acts.”

Constrained only by the statutory requirement in the Audit Act 1994 not to question the merits of government policy, VAGO can conduct PAs on an unlimited range of topics addressing, for instance, social, environmental, health, infrastructure, safety and community issues (PAEC, 2010a). The Audit Act 1994 also addresses VAGO’s relationship with the PAEC and outlines

11 For a comprehensive overview of the Westminster system, see Parliament of Australia (2016).

12 Other integrity and accountability bodies assisting parliament in its oversight role include the Ombudsman and Anti-Corruption Commission.
VAGO’s accountability to parliament (PAEC, 2010a). The relationships between relevant stakeholder groups are outlined in more detail in following sections.

2.4.1 Key stakeholder groups and their relationships

Referring to the PA function as a social construct, scholars conclude that multiple stakeholders play important roles in PAs (Parker and Jacobs, 2015; INTOSAI, 2004; Funnell et al., 2016). Applying the broad definition of stakeholder introduced by Freeman (1984) and Freeman and Reed (1983) in this research study, key stakeholders are those with a legitimate interest in the institution of performance auditing (Mitchell et al., 1997; see section 4.2.1). It is argued that auditees as the target of PAs (Morin, 2001), performance auditors as the initiators of PAs (Gendron et al., 2001; Desmedt et al., 2017), MPs as the recipients of PA reports and representatives of the public (Mulgan, 1997), and the media as the mediator and distributor of PA findings and the conduit for the public opinion (Bringselius, 2014), all have legitimate claims on the institution of performance auditing. The focus of analysis is therefore on the larger PA network (Justesen and Skærbæk, 2010). The following sections review key stakeholders’ roles and relationships.

2.4.1.1 Auditees

Public sector organisations in Australia are responsible for a variety of public services and are partly funded through taxpayers’ money (Barrett, 2001; Funnell et al., 2016). Therefore, the monitoring of their performance and accountability is essential (Kells, 2011a). Auditees, as representatives of audited public sector organisations, are the subject of PAs and are therefore closely involved in the PA process. They directly interact with performance auditors (Parker et al., 2018; Power, 2000; Morin, 2014; Funnell et al., 2016; Justesen and Skærbæk, 2010). In practice, the conduct of PAs requires auditees to provide information requested by auditors. In this regard, Power (2000) emphasises the need for further empirical evidence of auditees’ perception of PAs and their impacts. This becomes more significant as auditees often tend to strategically respond to PAs through creative compliance as outlined by Van Loocke and Put (2011, p. 200):

“Auditees could create an illusory world made up of beautiful plans, smart [capitals in original] objectives, indicators, procedures, and so on, […] while behind this formal façade everything goes on as it did before. ‘Decoupling’, ‘window dressing’, ‘dramaturgical performance’, ‘impression management’, ‘gaming’ are all terms used to describe aspects of this phenomenon.”

Depending on how auditees view their accountability relationships to other key stakeholders, what they interpret as impacts and whether they consider implemented changes as useful, they may attempt to manipulate PA outcomes according to their own needs (Reichborn-Kjennerud, 2013b; Power, 2000). A total of approximately 550 public sector organisations in Victoria including state government departments, local government councils, public bodies, independent budget sector agencies, public hospitals and ambulance services, universities and other educational bodies, water authorities and catchment management authorities are subject to VAGO PAs (VAGO, 2017a).

2.4.1.2 Members of parliament

A well-accepted role of parliaments is to hold public sector organisations accountable for their performance (Friedberg and Hazan, 2012; Hoque and Thiagarajah, 2015). In the Westminster system, a primary means by which parliaments execute their accountability function is through Public Accounts Committees (PACs) as part of the parliamentary infrastructure of democratic governments. Mulgan (1997, p. 34) describes PACs as “agents of accountability” who publicly
criticise government and their ministers. Activated by their genuine concern for the public interest, PACs hold an oversight role in monitoring and scrutinising public sector organisations’ use of public resources and provide a powerful forum for holding auditees accountable through committee investigations (Mulgan, 1997, 2000; Hoque and Thiagarajah, 2015; Griffith, 2005). Ian McPhee (cited in Hoque, 2015, p. xxi) emphasises the importance of the role of MPs by concluding that

“[I]ndependent parliamentary oversight plays an important role in preserving the trust of citizens in the integrity of government, through public accounts committees that are effective, independent and transparent.”

The membership of PACs is drawn from representatives of the main political parties. Hence, when the PAC speaks with one voice, it sends a powerful message to the government, especially because committee members’ views represent a cross-party position. Under these conditions, the government is much more likely to respond positively to PAC’s inquiries and recommendations (Hoque, 2015). PACs commonly hold a formal relationship with AGs to reinforce the communication and co-operation between parliament and AGOs (Hoque, 2015). According to the United Nations (2013, p. 33)

“Parliaments need SAIs in order to be able to do their job of holding government to account and equally, SAIs depend on support from parliaments to ensure that their findings and recommendations are followed up and lead to corrective action.”

Lonsdale (2000) concludes that PA work is usually channelled through PACs. In the same vein, Malloy (2006) considers PACs an important adjunct to AGOs’ audit functions arguing that PACs are able to complement and enhance the role of performance auditors primarily by providing public forum for further exploration of issues. The PAC relevant for this study is the Public Accounts and Estimates Committee (PAEC), a joint investigatory committee of the Parliament of Victoria. The PAEC obtains its legal status from the Public Accounts and Audit Committee Act 1951 (PAEC, 2016). It has a number of statutory responsibilities in relation to VAGO. In the PA context, the PAEC is required to execute the following tasks (PAEC, 2014a):

- recommending the appointment of the AG;
- reviewing the AG’s draft annual plan and, if necessary, providing comments on the plan to the AG prior to its finalisation and tabling in parliament;
- adopting a consultative role in determining the objectives and scope of PAs and identifying any other issues that need to be addressed; and
- adopting a consultative role in determining PA priorities.

Under section 14(1)(a)(i) of the Parliamentary Committees Act 2003, the PAEC is authorised to “inquire into, consider and report to parliament on any proposal, matter or thing concerned with public administration or public sector finances”. Further, section 33(3) outlines that the PAEC may “inquire into, consider and report to the Parliament on any annual report or other document relevant to the functions of the Committee”. These sections legislatively empower the PAEC to follow-up on matters of efficiency, effectiveness and economy raised by PA reports and to take further evidence on the progress achieved by auditees on VAGO’s recommendations (PAEC, 2011; VAGO, 2014b and 2016b). With regards to follow-up inquiries, the PAEC (2014a) is authorised to make further recommendations for improvement where considered necessary. Due to its legitimacy-conferring status and statutory nature the Victorian Parliament can summon auditees to appear before the PAEC for further public scrutiny (Jones and Jacobs, 2009; Bovens, 2005).
2.4.1.3 Performance auditors

AGOs are commonly denoted as watchdogs that assist parliament to exercise their supervisory function and help to hold auditees accountable (English and Guthrie, 1991). The United Nations (2013) refers to AGOs as an essential building block of the national accountability architecture. VAGO considers both roles as significant: while it is its vision to be “a catalyst for continuous improvement in the accountability and performance of the public sector” (VAGO, 2016a, p. 2), the office also intends to provide independent assurance to Parliament and the public on public sector performance. It is VAGO’s responsibility to provide independent assessments on whether public sector organisations, their programs and services have been operated economically, efficiently and effectively and to report findings from PAs to parliament in form of PA reports as illustrated by Figure 2 (VAGO, 2016a).

Under the auspices of the Australian Westminster model, it is to parliament that VAGO is accountable through the PAEC (VAGO, 2016a). Traditionally, under the Westminster convention, the relationship between VAGO and the PAEC has been one of complementarity (VAGO, 2010a). Performance auditors provide key support to the PAEC in its role of holding auditees accountable (VAGO, 2010a). The most fundamental aspect of performance auditors’ activities is their independence (Kells, 2011a). VAGO performance auditors act as independent officers of parliament. However, as outlined by McGee (2002, p. 21), “independence does not mean insulation from the suggestions and persuasions of others”. In fact, AGOs must be sensitive to political and public interest and concerns, and it is perfectly legitimate, indeed essential, that those interests and concerns should influence on how AG structure their PA plan.

Performance auditors intend to add value to audited public sector organisations by recommending ways to achieve performance improvements (Percy, 2001; Flesher and Zarzeski, 2002; Gendron et al., 2001). However, as outlined earlier, they are not authorised to question the merits of government policy objectives. They are, in fact, constrained by their status as independent officers of parliament and lack of executive power (Lonsdale, 2000; Hepworth, 1995). Funkhouser (2011, p. 221) emphasises that “auditors have no authority over any other party other than access to records, which is frequently contested”. As “knights without swords” (Torgler, 2005, p. 735), performance auditors are powerless when it comes to convincing auditees to adopt recommended changes (Morin, 2014). Although not authorised to impose formal sanctions on auditees (Hepworth, 1995), performance auditors can exert power through parliament, which often uses PAs to publicly blame auditees in parliamentary hearings (Bovens, 2007; Aucoin and Jarvis, 2005).

The INTOSAI outlined principles for independence of AGOs in its *Mexico Declaration on SAI Independence*. 
Figure 2: Key stakeholder groups involved in performance auditing in Victoria

Parliament of Victoria (PAEC)

Parliament authorises state government spending and programs

State government accounts for spending public money

State government and local government

VAGO audits public sector organisations as independent officer of Parliament

VAGO reports PA results to Parliament

Victorian Auditor-General’s Office (VAGO)

Reports on VAGO’s work

Reports on public sector performance and other issues

Media as the arena for the public debate

Reports on political issues

Citizens and taxpayers of Victoria (the public)

Informs the public

Sources: Gerald (2015); Cooper et al. (2012); Barrett (2001)
VAGO’s independence and discretion in the exercise of its PA function is enshrined within the Constitution Act 1975. Section 94(B) outlines that VAGO cannot be directed by anyone (see also VAGO, 2017b):

“[T]he Auditor-General has complete discretion in the performance or exercise of his or her functions or powers and, in particular, is not subject to direction from anyone in relation to – (a) whether or not a particular audit is to be conducted; (b) the way in which a particular audit is to be conducted; (c) the priority to be given to any particular matter.”

Each year, VAGO conducts around 30 PAs (see Appendix 1). Although a stakeholder in the PA network (see Figure 2) in terms of the conduct of the audit, VAGO is not itself affected by the results of its audits (Power, 2003b; Mulgan, 1997, 2000; Gendron et al., 2001). Nevertheless, VAGO performance auditors play an important role as they are the producers of PA reports, to which relevant key stakeholder groups (auditees, MPs and journalists) react (Gendron et al., 2007; Skærbæk, 2009). Performance auditors conducting PAs on behalf of VAGO are one of the relevant key stakeholder groups this study focuses on. In the following subsections, the researcher refers to this stakeholder group as performance auditors. By making auditees face public scrutiny, the media indirectly assists performance auditors and MPs to hold auditees to account (Mulgan, 2000; Bringselius, 2014).

2.4.1.4 Media

Journalists often consider themselves as key part of a democratic society (INTOSAI, 2010). In the PA context, Parker and Jacobs (2015) and Reichborn-Kjennerud (2014b) assign the media a central role as an information provider, arena for the public debate, and conduit for reaching citizens and taxpayers, i.e. the public (see Figure 2). The INTOSAI (2010) argues that because it is the media’s role to inform the public about how well or badly the public sector performs, journalists share values and links with performance auditors and are therefore a relevant stakeholder group of the PA function of VAGO.

The media plays a relevant role in highlighting AGOs’ PA mandate (Gerald, 2015). Extensive press coverage of PA work has the capacity to reinforce PA findings, to ensure that citizens hear the key messages and to increase citizens’ awareness of deficiencies in the public sector (United Nations, 2007; Aucoin, 2012). As the arena for the public debate (Parker and Jacobs, 2015; Gerald, 2015), the media has “the power to determine the kind of information that passes the filtering process and reaches the public” (Alon, 2007, p. 71). Parker and Jacobs (2015, p. 16) also see the media as a catalyst for attracting MPs attention to issues identified and emphasised in PA reports.

Due to its ‘informer’ and ‘issue raiser’ character and the relationship between politics, public sector and mass media (Lavi, 1999; Nebenzahl, 1975; Blume and Voigt, 2007), in this research study the media is considered a relevant key stakeholder group able to shape stakeholders’ perceptions of the performance of the public sector and the quality of its programs and services. Scholars’ observations of the media in the PA setting give reason to analyse what journalists understand as impacts.

2.4.2 The performance audit process in Victoria

PA impacts may emerge before, during and/or after the PA process (Van Loocke and Put, 2011). Moreover, accountability between relevant stakeholder groups is often concretely executed throughout the PA process with different accountability relationships coming into effect at different stages (Power, 2000). That is why it is essential to briefly outline the VAGO PA process: starting with the planning of a PA, the process begins with the identification of
the audit topic as illustrated in Figure 3. Various potential PA topics are considered annually and topics are selected based on several criteria, namely, risk, materiality, potential to have impact, matters of the public interest, and concerns raised by MPs (VAGO, 2009, 2016d; Kells, 2011b). Following the Audit Act 1994, VAGO is required to consult the PAEC on the selection of PA topics (VAGO, 2014a). Notwithstanding this requirement, the PAEC does not have the authority to direct VAGO performance auditors in relation to their PA program as this would impair VAGO performance auditors’ independence (Kells, 2011a; VAGO, 2010a, 2016b; PAEC, 2016).

Proposed PA topics are published in VAGO’s annual plan tabled in parliament (VAGO, 2016d). The annual plan sets out the PA work program. As part of the audit planning process, VAGO, according to section 15(2) of the Audit Act 1994 must prepare an audit specification in consultation with the PAEC and relevant public sector organisations before the conduct of the PA (Kells, 2011b). VAGO performance auditors are required to ask the PAEC and relevant public sector organisation(s) to provide feedback on the draft audit specification and to take this feedback into consideration before approving the final audit specification (Kells, 2011b; VAGO, 2014a). Before the commencement of PAs, VAGO usually provides briefings to organisations to communicate any preliminary findings (Kells, 2011b).
Figure 3: The phases of VAGO’s performance audit process

Planning
- Topic selection
- Annual plan
- Audit specification
- Briefing to relevant public sector organisation(s)

Conduct
- Initiate PA
- Fieldwork in accordance with audit plan
- Gathering of evidence
- Briefings on issues and preliminary findings

Reporting
- Draft version
- Organisation’s responses
- Proposed report
- 10 business days for responses
- Organisation’s responses for inclusion in tabled report
- Final report tabled in Parliament

Follow-up
- PAEC
- VAGO

- Briefings from VAGO/further information from audited organisations/public hearings.
- More precise focus on responses to recommendations/more extensive focus on new areas

Sources: VAGO (2014a); Kells (2011b); INTOSAI (2013); PAEC (2013)
During the PA conduct phase evidence is gathered from auditees. Common types of evidence are evaluation reports, performance data, contracts, business cases and meeting minutes (VAGO, 2014a). Section 12 of the Audit Act 1994 gives VAGO the right to access all information in the possession, custody or control of public sector organisations. Auditees are progressively briefed on issues emerging during the PA (VAGO, 2014a). As it is helpful for auditees to be engaged in discussions about preliminary PA findings as early as possible, auditees are given the opportunity to express their opinion on preliminary findings before the final version of the PA report is issued. This approach assists the development of performance auditors’ recommendations, which are supposed to meaningfully address identified issues, be implementable and of value for audited organisations (VAGO, 2014a).

Each PA results in a report providing a detailed discussion of the PA scope and objectives, the nature of operations of the audited organisation(s), the circumstances that prompted the PA, key findings, recommendations, and auditees’ responses and comments (Funnell et al., 2016). According to the Audit Act 1994 the AG is required to request from auditees responses to performance auditors’ recommendations. Auditees’ responses are then included in the final report to parliament. Following section 16(3) of the Audit Act 1994, a proposed draft version of the report is sent to auditees who are then asked to confirm the accuracy of the draft and to correct factual errors if necessary (VAGO, 2014a). Auditees have ten business days to formally respond to PA findings and recommendations before their responses are printed in PA reports tabled in parliament (VAGO, 2014a). Shortly after reports are tabled, VAGO initiates briefings with MPs to inform them about PA findings, conclusions and recommendations.

Auditees are expected to report on their progress against recommendations usually at least 12 months after the tabling of the report. These progress reports include specifications of actions planned, actions taken thus far, the status of completion and/or due dates for completion (VAGO, 2014a). VAGO has the discretion to revisit audited organisations where considered warranted and to initiate follow-up audits (PAEC, 2014a). Follow-ups intend to assess and examine auditees’ implementation actions in response to certain or all past recommendations (VAGO, 2014a). As part of its accountability function the PAEC also selectively follows up on specific PA reports that are of significance for the public and would benefit from further scrutiny (PAEC, 2014a). Further, MPs may require auditees to provide further evidence at public hearings (VAGO, 2014a).

2.5 Chapter conclusion

This chapter has examined the foundations on which PA activities in Victoria are based. Insights were provided into the emergence of PA, its key features and intentions, within a NPM discourse. The key stakeholders relevant for this study were introduced and the PA process was described in brief. After having provided the reader with an overview of the PA function in the relevant context, the forthcoming chapter presents a review of the relevant academic and professional literature on PA impacts.
3 Literature review

3.1 Introduction

Previous PA research is comprised of a variety of professional and academic studies including cross-cultural comparative work (e.g. Torres et al., 2016; Pollitt et al., 1999) and a range of studies focusing on PA practice in specific country-contexts, including Australia (e.g. Parker et al., 2018; Funnell and Wade, 2012; Guthrie and Parker, 1999; Hatherly and Parker, 1988; Parker and Jacobs, 2015; Parker et al., 2018). Only few studies have shed empirical light on the impacts of PAs (e.g. Desmedt et al., 2017; Reichborn-Kjennerud and Vabo, 2017; Justesen and Skærbæk, 2010; Morin, 2001). With reference to the topic under research, in this chapter, the available literature about PA impacts and factors that facilitate those impacts is reviewed and subjected to critical assessment. Attention will also be paid to relevant stakeholder relationships.

In PA literature, several authors have referred to conflicting demands and accountabilities of stakeholder groups, however, only a fairly limited number of studies has empirically highlighted the link between accountability and PA (e.g. Eckersley et al., 2014; Irawan, 2014; Ellwood, 2014). Mzenzi and Gaspar (2015, p. 682) underline that “how external auditing (public sector audit) contributes to accountability, has not been clearly established”.

As accountability (see section 4.3.1) has indirectly been referred to as impact-facilitating factor (Mulgan, 1997, 2001; Sharma, 2007; Reichborn-Kjennerud, 2013a), this chapter also takes a closer look at the accountability arrangements and relationships in the PA context. Further, this study recognises that in PA literature there is growing scepticism about and limited concrete evidence on the positive contribution PAs make to public sector organisations’ performance (Morin, 2014; Kells, 2011a and b). A recurring implication among exponents of PAs is that as a result of PAs, organisations have experienced performance improvements with regards to economy, efficiency and effectiveness, while critics have cautioned that PAs occasionally serve no purpose and may even have negative impacts that defeat the objectives of PAs (Morin, 2001; Sutherland, 2003). It is therefore equally essential not only to capture the positive impacts PAs may have, but also to elaborate on their unintended effects (Bawole and Ibrahim, 2016; Kells, 2011a).

This chapter is organised under the following major themes: firstly, section 3.2 introduces the different ways of how authors of previous PA studies understand the notion of impact and gives a brief overview of the relevance of impact-facilitating factors. Thereafter, in sections 3.3, 3.4 and 3.5, PA impacts and impact-enabling factors are examined in more detail using a three-level approach suggested by Van Loocke and Put (2011). According to the authors, impacts and facilitating factors may become manifested on various levels, including the macro level concerned with factors specific to the political-institutional context in which PAs are conducted, the meso-level that is about factors specific to SAIs and audited organisations, and the relationship between these stakeholders, and the micro-level that focuses on factors specific to PAs. Finally, section 3.6 summarises findings from the literature review and lists impacts and factors facilitating those impacts identified and defined in prior research studies.

3.2 Performance audit impacts and impact-facilitating factors

When examining PA impacts scholars have employed different terms, such as outcomes (Alwardat and Benamraoui, 2014), results (Arnaboldi and Lapsley, 2008), influences (Gerald, 2015), consequences (ECA, 2015) and impacts (Parker and Jacobs, 2015; Desmedt et al.,
Throughout this research study, the term *impact* is employed, which is defined by Torres et al. (2016) as the effect that something has on somebody or something.\(^{14}\)

In 2011, Van Loocke and Put published a literature review of PA impact studies. The authors analysed a total of 14 empirical studies that vary substantially in scope, research design and theoretical underpinning. From the examination of those studies five types of PA impacts emerged: instrumental, conceptual, political-legitimising, tactical and interactive impacts. **Instrumental** impact emerges in form of actions taken by auditees as reaction to PAs. The influence of PAs on auditees’ learning process is regarded as **conceptual** impact, while the degree of interest shown by parliament and the media is described as **political-legitimising** impact. Van Loocke and Put (2011) label **tactical** impact as impact on a decision-making process of ministers. Consultation and negotiation between stakeholders are considered as **interactive** impact. Apart from the various types of impacts categorised in their literature review, Van Loocke and Put (2011) also identified a range of factors that facilitate impacts. Factors likely to contribute to PA impacts can take various forms as will be shown in subsequent sections, and may occur at the macro, meso and micro level.

Van Loocke and Put (2011) conclude that scholars sometimes do not clearly distinguish between impacts and impact-facilitating factors. Since the publication of Van Loocke’s and Put’s (2011) work, several more empirical studies have been published that considerably add to the understanding of the nature and scope of PA impacts and impact-enabling factors (e.g. Parker and Jacobs; 2015; Kells and Hodge, 2011; Morin, 2014; Raudla et al., 2015; Torres et al., 2016; Desmedt et al., 2017, to name only a few). Some of those studies are consistent with conclusions made by Van Loocke and Put (2011), whereas others offer views that contradict the authors’ findings. These most recent and previous studies are examined in subsequent sections.

This research study applies Van Loocke’s and Put’s (2011) three-level approach to make sense of definitions of PA impacts and facilitating factors as perceived by key stakeholders. The following section examines the macro-level that is concerned with the roles of parliament and the media.

### 3.3 The macro level: parliament and media

The nature and extent of PA impacts often depend on the institutional structure of the public sector, comprising the power of the media and parliament, and the relative public and political accountability mechanisms (Bovens, 2007; Barrett, 2011). The macro level encompasses actions exerted by parliament and the media (Van Loocke and Put, 2011; Torres et al., 2016). This definition of macro level is of particular relevance for this research study, which examines the perceptions and interpretations of MPs and journalists.

Unlike meso and micro levels, the macro level has not been object of extensive research in PA literature. Only few studies examine the influence of the macro level on the utilisation and impact of PAs. However, following Varone et al. (2005) and Van Loocke and Put (2011) the way the political system is structured and how political actors like MPs and journalists view PAs, influences the outcomes of PAs. In fact, the media and parliament play significant roles in SAI’s and public sector organisations’ institutionalised task environment (Torres et al., 2016): they exert pressure on performance auditors and auditees and constitute the arena for

\(^{14}\) Following the European Court of Auditors (ECA, 2015, p. 4) ‘somebody/something’ is defined “as either direct addressees of the intervention or indirect addressees falling outside the boundary of the intervention”.

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the fight over legitimacy between stakeholder groups (Reichborn-Kjennerud, 2015; INTOSAI, 2013). Reichborn-Kjennerud and Vabo (2017) found that auditees tend to apply concrete changes when held politically accountable by MPs and publicly accountable by the media. Hence, for the purpose of this study, it is necessary to examine journalists’ and MPs’ interest in and reactions to PAs as they may trigger political-legitimising impact (Van Loocke and Put, 2011).

3.3.1 Interest from parliament

MPs play a crucial role as they can influence PA activities (Desmedt et al., 2017). Particularly PAC members can provide strength to PA activities by drawing journalists’ attention to PA outcomes, thereby ensuring that there is an influential audience that receives and scrutinises PA reports (Lonsdale, 2008). However, not every PAC is highly engaged in SAIs’ PA activities. Bringelius (2014), for example, demonstrates that the Swedish parliament does not assign a PAC to evaluate and oversee the SAI’s PA activities. In fact, until 2011 audited organisations were not required to respond to PA reports leading to situations where PA reports were ignored by auditees and no public debate was initiated by parliament. In this regard, Van Loocke and Put (2011, p. 187) emphasises the vital role parliaments play in the PA context:

“It is taken for granted that a strong parliament is more likely to boost the impact of audits with the administration and with the minister than a parliament that is hardly willing or able to control the executive.”

Nichol (2007) proposes that PA reports provide investigatory resources to PACs based on which MPs criticise public sector performance (see also Jacobs, 1998; Jones and Jacobs, 2009). According to Morin and Hazgui (2016, p. 583) performance auditors are aware of being used by MPs, particularly opposition members, “who brandish the auditors’ reports to pillory the elected government”. MPs’ attention to PA reports is often confined to topics that provide ammunition for political debate (Skærbek, 2009). With the active use of the media, by referring to PA reports in parliamentary debates, MPs often try to maximise their political gains and hope to improve their popularity (Bringelius, 2014; Blume and Voigt, 2007).

As stakeholder groups that hold coercive power, parliament and particularly PACs as legitimacy-conferring authorities exercise oversight through a process of political accountability (see section 4.3.3.1) and exert pressure on auditees if they do not act upon performance auditors’ recommendations (Bovens, 2007; Barrett, 2012; Jones and Jacobs, 2009). By initiating follow-up inquiries MPs decisively influence performance auditors’ actions and reinforce impact (Justesen and Skærbek, 2010; Milgrom and Schwartz, 2008; Torres et al., 2016). Indeed, NAO performance auditors interviewed by Morin and Hazgui (2016) assume that auditees’ undertaking of corrective action is accelerated by the pressure exerted by MPs following up on NAO PA reports. Evidence is provided by Morin (2004) and Torres et al. (2016) who found that the involvement of MPs prompted auditees to react unhesitatingly and more effectively to PA findings than if performance auditors acted alone. The effectiveness of parliamentary follow-up inquiries is emphasised by Barrett (2011) who contends that follow-ups conducted by PACs would result in greater and more timely PA impact and produce better outcomes than the conduct of more PAs by SAIs.

While the PA process including negotiations between auditees and performance auditors and follow-up audits conducted either by performance auditors or MPs are considered as backstage (Guthrie and Parker, 1999), public hearings are referred to as the front stage of PAs (Sharma, 2007), at which accountability is executed and the effects of PAs are reinforced. Public hearings appear analogous to court hearings, where auditees as witnesses are subjected to interrogation and questioning by PAC members on critical PA findings. Griffith (2005) and
Sharma (2007) contend that information provided by PA reports become alive in parliamentary hearings, where stakeholders come together, justifications and explanations for action are sought and agreements to correct and define practices are obtained. Usually, the witnesses do not only face MPs but also the AG, who comments on PA findings and recommendations when requested by MPs. Thus, parliamentary hearings often cause both performance auditors and auditees to demonstrate their performance and to seek legitimacy.

According to Lonsdale (2000) and Reichborn-Kjennerud (2014b) it is public hearings in which the performance auditors’ criticism unfolds and is magnified in a heated debate invoked by PAC members. In public hearings, PACs instil a sense of authority that PA reports alone could not achieve. The fact-based and objective rhetoric adopted in the writing style of PA reports constrains performance auditors to only include information based on gathered evidence. At parliamentary hearings, however, PA findings are brought to life by MPs who phrase their criticism as they prefer (Sharma, 2007). Although much of the impact of the PA report may already have occurred between the publishing of the report and the parliamentary hearing, performance auditors consider the hearing as “icing on the cake” that potentially reinforces impact (Sharma, 2007, p. 306):

“Without the PAC hearing the NAO report alone with its recommendations and criticisms would not have the clout to instil caution and impose changes to the running of publicly funded programmes. Recommendations made in NAO reports are enforceable through PAC connections and moreover followed up by the PAC.”

For performance auditors, it is often the parliamentary hearings through which they see the “fruits of their labour” (Sharma, 2007, p. 306). Lonsdale (2000, 2008) and Hepworth (1995) contend that performance auditors’ capability to make an impact derives from their ability to gain political support from MPs in form of follow-up inquiries and public hearings. Van Loocke and Put (2011, p. 194) conclude that “[i]nterest from parliament has both an intermediary or indirect impact, as well as a direct impact”. Parliamentary interest in PAs and the execution of hearings addressing public concerns provokes the interest of the media. As neither auditees, nor MPs can afford to ignore press coverage, the interest of the media plays a significant role in the PA context (Parker and Jacobs, 2015; Desmedt et al., 2017).

### 3.3.2 Interest from the media

The media is the key channel that keeps citizens and taxpayers informed about SAIs’ PA work (Bringselius, 2014). Hepworth (1995, p 42) emphasises that particularly a “[p]erformance audit […] creates the opportunity for a media headline through its focus on a particular activity”. Van Loocke and Put (2011) accommodate the impact emerging from media interest as political-legitimising as the interest from parliament is likely to be raised and disseminated by the media. Also, Parker and Jacobs (2015) see the media as a catalyst for attracting MPs attention to particular public issues. Several studies support this claim: Caspi (1981) who identified a sharp increase in the degree to which parliamentary inquiries in the Israeli parliament (Knesset) rely on media articles, demonstrates that press coverage does influence the political debate. Further, Reichborn-Kjennerud (2014b) and Hepworth (1995) argue that the media as an arena for the public debate is important for MPs seeking to advance their careers. If public performance issues raised by the media are of political interest for MPs, particularly opposition members, they will strategically select and use relevant media reports to “build their own personal brands in the media, as part of their individual careers” (Bringselius, 2014, p. 89).
Providing advice on how to maximise impact, Dye (2009, p. 8), a former Canadian Auditor-General, recommends performance auditors to not only rely on PACs to reinforce PA impacts but to actively boost their media presence:

“If your audit office does very thorough work but your Public Accounts Committee or other committees to whom you report do not pay attention or hold hearings on your audits, you have a problem. Parliamentarians are very busy people who don’t have much time to read printed reports. [...] SAIs need to recognize the reality that audit reports may not be read thoroughly or completely and find a way for their [...] stakeholders to become aware of the good work of the SAI. One way to do this is by getting the media to carry your message for them.”

The media plays a relevant role in highlighting SAIs’ PA mandate and transmitting SAIs’ message to the public (Gerald, 2015; Kells, 2011a; Sutherland, 2003). However, the impact of media interest has received surprisingly little attention by previous studies (Lonsdale, 2008). Bringselius (2014) is one of the few scholars examining the relationship between performance auditors and the media. He argues that performance auditors increase the impact of their work by maximising press coverage. In fact, many SAIs follow a dissemination approach concerned with the distribution of PA findings through the media to demonstrate and reinforce the value of PA activities (Bringselius, 2014; Lonsdale, 1999). Parker et al. (2018) and Pollitt (2003) confirm that SAIs have increased their efforts to communicate with the media. The media does not only play a significant role in spreading performance auditors’ key messages, but also informs them about citizens’ concerns. Parker et al. (2018) and Parker and Jacobs (2015) discovered that press coverage of public performance issues provides information to AGOs on topics attracting public interest and thus informs performance auditors’ thinking with respect to the selection of PA topics.

PA reports are the primary source for journalists, whose main interest lies in PA findings (Barrett, 2011; Lonsdale, 2008). Kells (2011a) found that particularly in Australia and the UK PA reports attract much media attention. How PA reports are interpreted, translated and echoed by the media is of great significance for auditees who have to deal with PA outcomes (Alon, 2007; Justesen and Skærbæk, 2010; Mayne, 2007). The INTOSAI (2010, p. 8) claims that

“[m]edia coverage of audit reports can give reports more impact and stimulate public demand for beneficial change in areas that the report highlights.”

In the same vein, Lavi (1999, p. 275) argues that the media has the power to influence PA results and that, “without the media – the trumpet sounding the call – audit is left lacking”. Indeed, Morin (2008) provides empirical evidence that media coverage of PAs is likely to affect the efficacy of PAs by exerting pressure on auditees and, therefore, spurring them into action. The author found that when PAs receive media attention, auditees tend to be more willing to comply with performance auditors’ recommended changes and to correct deficiencies more quickly. Reichborn-Kjennerud and Vabo (2017) add that when the media uses PA reports to hold audited organisations publicly accountable, auditees tend to implement concrete changes. Hence, by making auditees face public scrutiny the media assists the accountability process (Mulgan, 2000; Alon, 2007; Kells, 2011a; Hepworth, 1995).

Van Loocke and Put (2011) contend that the media’s political-legitimising impact emerges from its critique and legitimisation of public sector organisations’ activities. Justesen and Skærbæk (2010) argue that there appears to be a proportionate relation between the level of criticism and the number of media articles referring to PA reports. The authors conclude that the more critical a PA report is, the more media attention it is likely to receive and the more pressure is exerted on auditees. The scenario described by Justesen and Skærbæk (2010) is
often the reason for SAIs being overly critical. Following Bringselius (2014) one way for performance auditors to make sure that PA reports attract media attention is to present results that are interesting, surprising, and/or appalling. In this regard, Morin (2008) accuses performance auditors of applying a headline hunting approach desperately seeking for press coverage of their PA work.

Morin (2008) further claims that media attention surrounding PA findings allows auditors to demonstrate their role as denouncers of abuse. This, however, does not seem to have positive impact with regards to the prevention of future deficiencies and the correction of mismanagement. Justesen and Skærbæk (2010) conclude that through media attention PAs sometimes generate tension and discomfort as auditees may feel that they are being criticised ‘no matter what’ and that they are unavoidably involved in a reputation-damaging and destructive blame game fuelled by the media. The media potentially increases the visibility of performance auditors’ work, which in turn, may motivate them to become overly critical in their reporting in order to gain more media attention (INTOSAI, 2013). That may lead to situations where performance auditors damage their trust relationship with auditees (Bringselius, 2014). Roberts and Pollitt (1994) argue that one reason why performance auditors hunt for media headlines is the need to prove their performance and to legitimise their existence.

3.4 The meso level: the Auditor-General’s Office and public sector organisations

Van Loocke and Put (2011) define the characteristics of performance auditors and auditees and the relationship between these two stakeholder groups as meso-level. It is the meso-level, at which the PA is conducted, which involves the direct interaction between performance auditors and auditees throughout the PA process. Although this research study does not seek to examine the interaction between performance auditors and auditees, previous studies have shown that the way in which these stakeholders communicate facilitates PA impacts (Van Loocke and Put, 2011).

Previous impact studies often begin with an examination of the roles of auditees and performance auditors (Raudla et al., 2015; Arnaboldi and Lapsley, 2008; Alwardat et al., 2015). Referring to PAs as social influence process that takes on full meaning through the auditor-auditee relationship, Morin (2001, p. 100) defines performance auditors as the “source of influence” and auditees as the “target of influence”. Given that it is the objective of PAs to improve performance and enhanced accountability in the public sector, auditees expect performance auditors to add value to their organisations by providing feasible recommendations. Due to auditees’ direct involvement in PAs, Alwardat et al. (2015), Lonsdale (2008) and Hasan et al. (2013) argue that auditees are not passive recipients of performance auditors’ activities but intelligent actors who actively navigate performance auditors’ findings and recommendations through their responses to PAs. In this regard, one of Power’s (1999, 2003) findings that is of particular interest for this study is that auditees have the ability to actively channel performance auditors’ work and thereby influence the outcomes by determining the extent to which performance auditors are dependent on auditees with regards to the auditees’ knowledge. Findings of Parker’s and Jacob’s (2015) study confirm such observations. The authors note that auditees directly affect the PA process by either assisting performance auditors through the sharing of high-quality information and engaging in open conversations or delaying their work by withholding information. Conclusions made by Parker and Jacobs (2015), Alwardat et al. (2015), Lonsdale (2008) and Hasan et al. (2013) support Power’s (2003, p. 199) view that the auditee is undoubtedly a “complex being”, that might undertake attempts to modify auditors’ findings through a process of negotiation to bring them in accordance with their own objectives and organisational culture.
The auditor-auditee relationship, the conduct of PAs and PA findings are affected by different roles performance auditors may take on (Pollitt et al., 1999; Grönlund et al., 2011; Morin and Hazgui, 2016; Pierre and de Fine Licht, 2019). In the NPM environment performance auditors are expected to act as change agents (Justesen and Skærøe, 2010; Funnell, 2015) and modernisers (Morin and Hazgui, 2016). Nevertheless, it has been demonstrated that performance auditors occasionally assume the roles of the controller, the punisher or the management consultant (Morin, 2003; Morin and Hazgui, 2016). Depending on the role performance auditors take on, they significantly alter auditees’ ways of (re)acting (Gendron et al., 2007). Particularly the management consultant role is said to miss the purpose of PAs to provide an objective, impartial and independent view on public sector organisations’ performance (Gendron et al., 2001; Skærøe, 2009; INTOSAI, 2013).

Lonsdale (1999) and Power (1997, 2003) accuse performance auditors of softening, sugar-coating and under-reporting of PA findings when auditors and auditees interact closely and exchange information openly and frequently. When intensively discussing PA findings with auditees prior to the publication of PA reports, performance auditors tend to *cosy up* to auditees (Kells, 2011a). Thereby, performance auditors’ independence is put at risk, the accountability mechanism is weakened (English, 2007; Gendron et al., 2001), and the efficacy of PAs is diminished (Kells, 2011a). Gendron et al. (2001) and more recently Pierre and de Fine Licht (2019), raised concerns about the concomitant loss of performance auditors’ independence and integrity when they act like management consultants. Studying the changing role of a Canadian Auditor-General, Gendron et al. (2001) concluded that performance auditors maintain a delicate balance between the role of the management consultant and the independent auditor, and that the State Audit Office had compromised its independence by promoting the government agenda of the NPM framework. Pierre and de Fine Licht (2019), in their examination of how performance auditors manage the tension between holding auditees accountable and supporting them to improve their performance, found that the modus operandi of PA changed: while historically, PA work has been a one-off exchange between auditor and auditees, the new PA approach fosters a more continuous dialogue with auditees. According to the authors the continuous engagement with auditees allows auditors to gain a better overview of the organisation audited and helps them to provide more tailored recommendations. Pierre and de Fine Licht (2019) consider this approach to be an exceptionally efficient PA strategy.

Depending on the role performance auditors adopt, they have different intentions affecting the PA process including topic selection, fieldwork, nature of recommendations and writing the PA report. Moreover, the role performance auditors take on evidently affects how useful auditees perceive PAs to be (Lonsdale, 1999; Desmedt et al., 2017; Pierre and de Fine Licht, 2019). While performance auditors acting as controllers and punishers often intend to blame auditees and to hold them publicly accountable, performance auditors adopting the roles of change agents and modernisers generally have the intention to encourage auditees to implement change (Öhman, 2015; Morin and Hazgui, 2016). Empirical evidence provided by Funell et al. (2016), Morin (2003), Sharma (2007) and Skærøe (2009) has demonstrated the potential for role conflict between performance improvement and accountability objectives. According to Funell et al. (2016, p. 16) performance auditors who seek a

>“higher public profile as a watchdog of public accountability might be tempted to focus on ‘gotchers’ and ‘juicy bits’ rather than public management improvement, thus improving his or her standing with the Parliament at the expense of the auditor-auditee relationship and the ability of the performance audit to be seen to add value to the operations of auditees.”
The auditor-auditee relationship is a well-discussed phenomenon in PA literature (Morin, 2001, 2014; Reichborn-Kjennerud, 2014a; Funnell and Wade, 2012). Auditors and auditees actively shape PAs by exchanging information during the audit process and negotiating audit findings (Johnsen et al., 2001; Lapsley and Pong, 2000; Loke and Hamid, 2016). Keen (1999) and Funnell and Wade (2012) emphasise the inevitability of the disagreement between auditees and auditors due to the difference in their belief systems. The complexity of the auditor-auditee relationship is further highlighted by Morin (2001, p. 115) who claims that performance auditors and auditees form relations “where power plays occur and where the reactions of both parties are quite unpredictable”. Funnell and Wade (2012) accept the emergence of hostile relationships fuelled by aggressive behaviour of either stakeholder group as unavoidable part of the PA process. Aggressive behaviour and negative attitudes lead to conflict and affect the PA process and outcomes. If auditees perceive PAs as a genuine threat to their organisation, they may deliberately choose to act strategically to influence audit results (Fellingham and Newman, 1985; Funnell and Wade, 2012).

AGOs recognised that the auditor-auditee relationship plays a significant role in PA practice (Funnell et al., 2016). For example, the ANAO has taken effort to improve the relationship with auditees based upon the belief that better relationships result in more positive PA impact (Gerald, 2015). Therefore, the ANAO (2015) committed to a so-called ‘no surprises’ approach, which provides opportunities for auditees to discuss PA findings while the audit is ongoing. Morin (2004) found that when performance auditors communicate in an open and honest manner with auditees, the PA was most likely to be more effective. However, the reverse was also true; when performance auditors behaved like punishers and inquisitors, the risk that PAs would be fruitless was greater. Highlighting the importance of effective two-way communication between performance auditors and auditees, Van Loocke and Put (2011) and the INTOSAI (2013) add that good communication and cooperation is necessary and encouraged for building a trustful relationship and to add value to audited organisations.

3.5 The micro level: before, during and after the performance audit process

The PA process is comprised of different stages (see section 2.4.2) at which, according to previous research studies, different forms of impacts can take place and various factors can trigger impacts. The following sections elaborate on the potential impacts as well as impact-facilitating factors that emerge at different stages of the PA process.

3.5.1 Performance audit topic selection

Following Put and Turksema (2011) there are various reasons why the selection of PA topics is so important. The authors assert that the topic selection is closely connected to the expected contribution of PAs. If performance auditors, in their topic selection process, focus on minor issues considered secondary by auditees and MPs, they risk conducting audits that do not add value (Put and Turksema, 2011; Van Loocke and Put, 2011). In this regard, Frey (1994) remarks that PAs often erroneously attribute great importance to minor performance deviations, while disregarding large inefficiencies. Schwartz (2000) who shed empirical light on this issue found that auditees were frustrated with PA results. They claimed to have learnt nothing because PAs focused on minor issues.

By making PA topic suggestions, PACs can influence the PA plan and consequently influence the PA focus. Therefore, Van Loocke and Put (2011) and Put and Turksema (2011) argue that through their influence on the topic selection process, MPs indirectly exert impact as they channel performance auditors’ interest to particular issues. In an examination of the PA topic selection process of the Belgian SAI (Rekenhof) and the Dutch SAI (Algemene Rekenkamer)
Put and Turksema (2011) assert that the Algemene Rekenkamer carries out several PAs each year at the request of parliament, while the Rekenhof intends to select PA topics that are likely to attract MPs’ attention.

### 3.5.2 Performance audit reports

Audit findings and recommendations are presented in PA reports (Reichborn-Kjennerud, 2013a and b). Funkhouser (2011, p. 223) describes PA reports as “opening act in a long series of events involving multiple actors”, who make use of the information provided in those reports and use them as reference instrument (Morin, 2008; Barrett, 2001). PA reports are therefore not the end product of PAs, but the intermediate step that leads to discussion between stakeholders (Put and Turksema, 2011). PA reports are the key channel through which information on auditees’ performance enters the public domain and becomes accessible (Parker and Jacobs, 2015; Lonsdale, 2000). PA literature generally supports the notion that PA reports fuel and inform the public sector accountability mechanism (Mayne, 2007; Lonsdale, 2011; English and Guthrie, 1991). Arguing that PA reports help to identify those to be held to account, Skærbaek and Christensen (2015, p. 1264) refer to PA reports as “blame purification” instruments often used by parliament and the media to hold auditees to account (see sections 3.3.1 and 3.3.2). PA reports provide the scripts relevant for parliamentary hearings where further investigation and debate are carried out (Reichborn-Kjennerud and Vabo, 2017; Lonsdale and Mayne, 2005; Roberts and Pollitt, 1994; Sharma, 2007).

PA reports are not only considered as primary vehicle for public sector accountability processes, but also as a rationale for PA impact in form of organisational learning (Morin, 2014; Lonsdale and Bemelmans-Videc, 2007; Van der Meer, 1999), referred to by Van Loocke and Put (2011) as conceptual impact. Through learning effects, PA reports are said to trigger the long-term impact on audited organisation (Reichborn-Kjennerud and Johnsen, 2018).

Reichborn-Kjennerud (2013a and b) and Morin (2014) consider PA reports as point of departure for organisational change (see section 3.5.5). Whether auditees make use of PA reports and adopt suggested changes, however, depends on the report quality and materiality and whether the findings are convincing enough to persuade auditees to adopt change (Reichborn-Kjennerud and Vabo, 2017; Hatherly and Parker, 1988; Lonsdale and Bechberger, 2011). In a study by Reichborn-Kjennerud and Johnsen (2018) on a Norwegian SAI, the authors found that if reports contained suggested changes that auditees were already planning to make, they considered reports as culturally compatible and adopted suggested changes in order to be granted legitimacy from auditors.

Drawing on performance auditors’ perspectives on the involvement of auditees at the reporting stage, Parker and Jacobs (2015) found that auditees do generally not influence PA report structure. However, with regards to the content of reports some auditors contended that auditees had no or only very little influence, whereas others held the view that auditees do influence report contents through the correction of factual errors, resolving misconceptions and influencing the tone.

### 3.5.3 Performance auditors’ recommendations

The acceptance rate of PA recommendations has commonly been defined as indicator of PA impact (Hatherly and Parker, 1988; Lonsdale, 1999; Ahlenius, 2000; Torres et al., 2016) and has been coined by Van Loocke and Put (2011) as instrumental impact. According to Brooks and Pariser (1995) recommendations are the vehicle leading to improved performance of public services and programs. Various other scholars (e.g. Hamburger, 1989; Morin, 2001, 2004) provide contrasting views on recommendations’ potential to generate impact. In fact, defining
the recommendations acceptance rate as impact is a controversial issue in PA literature (Desmedt et al., 2017).

Morin (2001, 2008) and Van der Meer (1999), for instance, indicate that the recommendation acceptance rate is an inadequate variable for making a valuable evaluation of PAs’ success. This is because the recommendation acceptance rate strongly correlates with the nature of proposed recommendations. In the Australian public sector context, Hatherly and Parker (1988) noted that the more radical the changes proposed by auditors were, the lower the recommendation acceptance rate had been. Van Loocke and Put (2011, p. 198) confirm that auditees tend to pick the “low hanging fruit”. The authors echo a statement made by Hamburger (1989, p. 17) who exemplifies that a recommendation implementation quota of 75% “might not imply success, […] if the rejected recommendations were the most important”. Similarly, in a study on the U.S. General Accounting Office (GAO), Johnston (1988) justifies a recommendations acceptance rate of 77% by auditees taking the path of least resistance. Consequently, dwelling on the recommendation acceptance rate appears to be a limiting approach as it fails to weight the significance of recommendations (Hatherly and Parker, 1988; Johnston, 1988; Hamburger, 1988; Desmedt et al., 2017). The number of recommendations accepted by auditees is further used by performance auditors who use the ratio as a measure of their impact (Talbot and Wiggan, 2010).

In a comparative study on European SAIs, Torres et al. (2016) assess PA impacts based on the recommendation acceptance rate. Acknowledging that the acceptance rate leaves open the question of whether accepted recommendations have been implemented, the authors emphasise the need to examine how and to what extent recommendations were adopted. More precisely, they conclude that for PAs to have impact, the sufficient condition is the implementation, not the acceptance of recommendations. That is also emphasised by Barrett (2012) who does not rule out the possibility of partial or non-implementation although recommendation acceptance rates may sometimes be high. He argues that it should be a reasonable expectation that the implementation action of accepted recommendations would take place in a timely fashion. However, it has been discovered that despite follow-up actions undertaken by PACs and/or performance auditors, auditees tend to delay their implementation practices quite frequently and occasionally even go so far to address recommendations only partially or not at all. Barrett (2012, p. 133) emphasises the latter arguing that “if a recommendation has not been implemented within four years, it is not likely to be implemented”. These observations are also emphasised by Parker and Jacobs (2015) who call attention to the limitations of the recommendations acceptance rate as an impact indicator. The authors argue that while the acceptance of PA recommendations appears to be customary at first sight, “the highly variable forms of auditee response phrasing, suggests otherwise”. Parker and Jacobs (2015) offer insights into the variety of auditees’ responses to recommendations. Those responses ranged from total to minimal acceptance. Also, auditees’ rejection of recommendations took multiple forms as illustrated in Table 1:
Table 1: Auditees’ responses to performance audit recommendations

<table>
<thead>
<tr>
<th>Acceptance</th>
<th>Rejection</th>
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</thead>
<tbody>
<tr>
<td>Accept</td>
<td>Reject</td>
</tr>
<tr>
<td>Accept in principle</td>
<td>Rejection implied (from the comments)</td>
</tr>
<tr>
<td>Agreed subject to negotiation</td>
<td>Under consideration</td>
</tr>
<tr>
<td>Conditional acceptance (e.g. subject to resources)</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Agreement implied (from the comments made within the auditee response)</td>
<td>Noted</td>
</tr>
<tr>
<td>Partial agreement implied (from the comments made within the auditee response)</td>
<td>No specific response to the recommendation</td>
</tr>
<tr>
<td>[Not available]</td>
<td>Obfuscation (e.g. lengthy narrative on agency operation)</td>
</tr>
</tbody>
</table>

Source: Parker and Jacobs (2015, p. 20)

Parker and Jacobs (2015) discovered that auditees’ reasons for accepting or rejecting recommendations were diverse. With regards to the acceptance of recommendations, auditees offered different rationales listed in Table 2. The authors (p. 21) note that although the implementation approaches offered by auditees give the impression of “a strong degree of uptake”, thorough analysis of auditee discourse discloses a more complex pattern of responses. With respect to different degrees of rejections, Parker and Jacobs (2015) conclude that they all most likely resulted in complete rejection of recommendations or auditees’ inaction.

From listed rationales it becomes clear that acceptance was expressed in terms of the contribution recommendations would make to audited organisations. Apart from the responses in Table 2, auditees also expressed their preference for maintaining status quo, arguing that current systems and programs are performing adequately (Parker and Jacobs, 2015). Furthermore, auditees provided responses that Parker and Jacobs (2015) categorised as self-defence. Those responses led to procrastination or contestation of the implementation of recommendations and sometimes resulted in partial or non-implementation. Reasons for non-implementation of recommendations discovered by Parker and Jacobs (2015), that have also been identified by other authors such as Pollitt et al. (1999), Morin (2014) and Reichborn-Kjennerud (2014a), are recommendations’ unsuitability and impracticality, auditees not feeling responsible, perceived incorrectness of auditors’ assumptions and factual errors in PA reports, incompatibility with the political agenda of the government of the day, unavailability of human and/or financial resources necessary for implementation actions, and general resistance to change among auditees, to name only a few. Reichborn-Kjennerud and Vabo (2017) oppose the view of other authors (e.g. Funnell and Wade, 2012) that the partial or non-implementation of recommendations necessarily results from auditees’ attitude to generally resist change claiming that the rejection of recommendations often results from auditees’ awareness of organisational deficiencies and the fact that measures have already been put in place.
Table 2: Auditees’ recommendation implementation approaches

<table>
<thead>
<tr>
<th>Implementation approaches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will implement changes required (no qualifications)</td>
</tr>
<tr>
<td>Will implement changes required (including approach/plan/technical answer)</td>
</tr>
<tr>
<td>Will implement changes required subject to resource constraints</td>
</tr>
<tr>
<td>Will implement changes required subject to capacity to implement</td>
</tr>
<tr>
<td>Will implement changes required subject to prior implementation from other entities</td>
</tr>
<tr>
<td>Will implement as a framework, but wants to maintain flexibility</td>
</tr>
<tr>
<td>Will implement changes required through working with partner agencies</td>
</tr>
<tr>
<td>Will implement changes required subject to leadership from central agencies</td>
</tr>
<tr>
<td>Will implement changes required where appropriate</td>
</tr>
<tr>
<td>Will implement changes required subject to practical considerations</td>
</tr>
<tr>
<td>Will implement changes required through enhancements of existing systems and processes</td>
</tr>
</tbody>
</table>

Source: Parker and Jacobs (2015, pp. 20-1)

Reasons outlined above often lead to situations where auditees tend to strategically respond to auditors’ recommendations. Reichborn-Kjennerud and Johnsen (2018) found that auditees may decide to resist change if their opinion was not taken into consideration. In a later study, Reichborn-Kjennerud and Vabo (2017) add that auditees occasionally respond to auditors’ recommendations by adopting symbolic changes instead of real changes. Power (1997, 2000) refers to the phenomenon of symbolic changes as creative compliance and decoupling, a process leading to “discrepancy between intentions and actual practice” (Furubu, 2011, p. 41). This discrepancy between words and actions has also been noticed by Boxenbaum and Jonsson who noted that (2008, p. 78),

“[w]hen adaptations to institutional pressures contradict internal efficiency needs, organizations sometimes claim to adapt when they in reality do not; they decouple action from structure in order to preserve organizational efficiency.”

To this perspective, Wade (2008, p. 140) adds that auditees often conceal their non-compliance “behind a façade of rituals and ceremonies or establish a buffer between their formal structures and their everyday work activities”. Emphasising the advantages of employing a decoupling strategy, Meyer and Rowan (1977), Dillard et al. (2004) and Scott (2008, 2014) outline that through decoupling organisations can maintain standardised structures while actual activities vary in practice. By employing a decoupling strategy auditees may avoid or minimise conflict with other stakeholder groups and may minimise the possibility of future inspection by performance auditors (Reichborn-Kjennerud, 2014a; Taut and Brauns, 2003). Following Loke and Hamid (2016), the resistance to implement recommendations clearly hinders the PA from having positive impact.

A drawback of the recommendation acceptance rate is that it implies that auditors’ findings are invariably pertinent, and the implementation of recommendations inevitably leads to performance improvements (Leeuw, 2011; Kells, 2011a). However, it needs to be noted that evidence has been provided by Sutherland (2003) demonstrating that not implementing recommendations is not always a bad thing as they do not necessarily lead to performance improvements (see section 3.5.5).
3.5.4 Follow-up audits

Performance auditors as well as PAC members are authorised to conduct follow-up inquiries (Morin, 2008). INTOSAI (2010) claims that following up on the implementation of recommendations is an essential step to ensure that auditees have been responsive to PAs and have undertaken corrective action. Brooks and Pariser (1995, pp. 73-4) assert that

“[w]ithout a follow-up system to facilitate the implementation of audit recommendations, it is not uncommon for auditors to make the same recommendations year after year because the government entity failed to implement prior recommendations.”

That follow-up audits have an impact on audited organisations has been demonstrated by Morin (2008), who concludes that knowing that performance auditors make return visits to follow-up on auditees’ recommendation implementation actions, auditees are under pressure to correct malfunctions and mismanagement. Thus, follow-ups have a deterrent effect on auditees. However, Barrett (2011, p. 403) recognises that despite the extensive follow-up work,

“we still see failure to implement performance audit recommendations and a repeat of the kinds of performance deficiencies that implementation of those recommendations was supposed to address.”

The author lists some of the numerous excuses put forward by auditees for inadequate responses to recommendations and follow-up activities: pressures on resources, staff turnover, inability to recruit qualified personnel, changing economic and social environment, problems with other organisations, and changing political imperatives and timeframes for results. While the author (p. 404) admits that there is no doubt that some of these explanations hold true and are based on sound facts, at the same time he criticises that

“if greater attention were paid to implementation of performance audit recommendations, the impact of such factors would become apparent earlier and could be conveyed to the various stakeholders for any alternative action that might be considered necessary.”

Barrett (2011) holds the view that continual auditing in form of follow-up activities is certainly not the answer and that it could indeed be counter-productive.

3.5.5 Induced organisational changes

PAs are often portrayed as vehicle of change (Justesen and Skærbæk, 2010; Power, 1997, 1999; Funnell, 2015). In numerous studies impact has increasingly been associated with changes in auditees’ operations and activities (Torres et al., 2016; Reichborn-Kjennerud and Johnsen, 2018; Raudla et al., 2015). Lonsdale (1999), for instance, argues that PAs have impact only when they bring about change. In interviews conducted by Funkhouser (2011) in SAIs around the world, performance auditors frequently used the words change to describe what they perceive as a successful PA. Examining PA impacts, scholars identified a variety of changes implemented by auditees. The following changes have been reported:

Table 3: Induced changes

<table>
<thead>
<tr>
<th>Changes identified by previous studies:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in internal human resource management</td>
</tr>
<tr>
<td>Changes in personnel (recruitment/layoffs)</td>
</tr>
</tbody>
</table>
While authors mention the kind of changes, limited reference has been made to whether changes have been incremental (Shand and Anand, 1996; Reichborn-Kjennerud and Vabo, 2017), extensive (Kells, 2011a and b) or revolutionary (Morin, 2008). One of the few studies that refer to the dimension of changes is a Belgian study by Desmedt et al. (2017) that examines auditees’ perspectives on PA impacts. The survey showed that while PAs have not led to radical organisational changes, performance auditors’ work was nevertheless noticeable as it drew auditees’ attention to internal organisational processes that could potentially be improved. These findings confirm conclusions made by Morin (2008, 2014) that changes have not led to revolutions in audited organisations but have had moderate influence. In a study by Reichborn-Kjennerud and Vabo (2017) survey respondents demonstrated that some changes, for example, changes in procedures for coordination and changes in internal control and risk management have led to more organisational improvement than, for example, changes in staff training. As the survey instrument employed does not allow for an examination of the reasons for auditees’ perceptions the questions remain, whether recommended changes have been perceived as useful and whether those changes have fostered performance improvements with regards to economy, efficiency and effectiveness.

Bowerman et al. (2003), Kells (2011a) and Shand and Anand (1996) refer to possible adverse effects the implementation of changes may have. For instance, PAs may cause organisations to implement new systems and processes that are auditor-friendly or superficially desirable but unnecessary or even unfavourable for public organisations. There are numerous ways in which PAs could lead to unnecessary changes: Sutherland (2003) provides the example of the federal government department, Human Resource Development Canada (HRDC), which had to adopt new procedures for management control as a consequence of a PA although the department’s controls were at least fully satisfactory. The induced changes added C$50 million to the annual costs of the HRDC. The author (pp. 214-5) criticises that the new controls “may even worsen control by adding more pressures for front-line staff, whose numbers have not been augmented”. The scenario described by Sutherland (2003) provides evidence for Kells’ (2011a) anti-innovation critique of PAs, which is concerned with whether PAs could reduce public sector efficiency and effectiveness. Indeed, the HRDC PA imposed costs, which the department could have invested into more innovative operations. Empirical findings of previous studies suggest that the implementation of changes is partially dependent on the perceived usefulness of PAs (Reichborn-Kjennerud, 2013b).

15 Different dimensions of organisational change will be explained in detail in section 4.2.4.3.
3.5.6 Perceived usefulness of performance audits

Previous studies have confirmed that PAs are more likely to have impact when they are perceived as useful. Therefore, the perceived usefulness of PAs has been regarded as impact-facilitating factor by various scholars (e.g. Morin, 2001, 2014; Hasan et al., 2013; Hatherly and Parker, 1988; Lonsdale and Bechberger, 2011; Funnell et al., 2016; Raudla et al. 2015; Reichborn-Kjennerud, 2013a, 2014a). Scholars argue that the extent to which auditees perceive PAs as useful is largely influenced by their prior experience in undergoing PAs (Arnaboldi and Lapsley, 2008; Reichborn-Kjennerud, 2014a) and their attitude towards PA practice and the underlying principles of monitoring and evaluation (Van Loocke and Put, 2011; Etverk, 2002). Additionally, performance auditors’ levels of competence and expertise, communication style (Morin, 2001; Lapsley and Pong, 2000), the credibility of PA findings (Funnell and Wade, 2012; Wade, 2008; Barrett, 2012; Milgrom and Schwartz, 2008), and the feasibility of recommendations (Morin, 2004, 2008; Pollitt et al., 1999), are all factors that could enhance or hinder auditees’ perceived usefulness of PAs (Alwardat et al., 2015).

From an institutional perspective, recommended changes are more likely to be perceived as useful, and therefore, to be implemented, if they are compliant with auditees’ organisational culture, norms and values (Reichborn-Kjennerud and Vabo, 2017). According to Reichborn-Kjennerud and Johnsen (2018, p. 10) recommended changes are subject to a compatibility test (see also March and Olsen, 1989), meaning that

“proposed changes, in order to have impact, must be compatible with the [organisation’s] own opinion about changes that need to be made as well as with their perception of what is appropriate. If this is not the case, the audited entity could be quite resistant to change”.

Egeberg and Trondal (2011) argue that perceptions serve as frames for action. According to the authors, stakeholders’ actions are therefore associated with their perceptions. Nevertheless, relying on the usefulness of PAs as perceived by auditees is a very limiting way of examining the notion of impact (Justesen and Skerbæk, 2010; Lonsdale, 1999). While pretending that PAs have been useful, auditees might ignore PA recommendations, or employ a variety of strategies, such as decoupling to make other stakeholders, particularly performance auditors believe that public sector organisations implemented recommended changes.

3.6 Chapter conclusion

This chapter reviewed the literature on PA impacts and impact-facilitating factors. The purposes of this review have been to examine what the literature establishes as known about PA impacts and factors influencing those impacts, and to identify limitations of and gaps in previous and recent studies. Drawing on the limited empirical evidence, it can be concluded that PA impacts and factors facilitating those impacts emerge in complex and multifaceted forms at different stages of the PA process.

Authors considered impacts categorised as instrumental impacts, thereby framing impact in terms of, for example, the implementation of recommendations and adoption of changes. Following Lonsdale et al. (2011) this might be the case because instrumental impact is easier to identify than conceptual, interactive, political-legitimising, and tactical impacts. Only a small number of studies identified tactical impacts and few studies provide insights into possible interactive impact in form of debates between stakeholders. Recently, an increasing number of studies have focused on the examination of political-legitimising impacts of PAs. The different forms of impacts influence and complement each other: conceptual as well as political-legitimising impacts are regarded as intermediate variables leading to instrumental
impact (Van Loocke and Put, 2011; Morin, 2008). The review shows that many studies do not clearly distinguish between impacts and impact-facilitating factors, and that authors’ differentiation between those terms is fairly vague. What some authors consider as impacts is regarded as impact-facilitating factor by others. These conclusions reflect contentions made by Torres et al. (2016, p. 23) that “[t]here is no single way to obtain impacts from performance audits”. The leading question therefore is, what the impacts of PAs are (Tremblay and Malsch, 2015; Morin, 2014). Tables 4 and 5 summarise impacts and impact-facilitating factors as identified by authors of previous studies.
Table 4: Performance audit impacts

<table>
<thead>
<tr>
<th>Category of impact</th>
<th>Type of impact</th>
<th>Time dimension</th>
<th>Studies identifying this type of impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interactive</td>
<td>Consultation and negotiation between stakeholders</td>
<td>During and/or after the audit</td>
<td>Sharma (2007), Lonsdale (2008), Etverk (2002), Van der Meer (1999)</td>
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<tr>
<td>---</td>
<td>---</td>
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<td></td>
</tr>
<tr>
<td>Level</td>
<td>Type of factor</td>
<td>Impact facilitating factor</td>
<td>Studies identifying this impact facilitating factor</td>
</tr>
<tr>
<td>--------------</td>
<td>--------------------------</td>
<td>-------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Macro</td>
<td>Political-institutional</td>
<td>Characteristics of the institutional environment and its political system</td>
<td>Reichborn-Kjennerud and Johnsen (2018), Torres et al. (2016), Put and Turksema (2011)</td>
</tr>
<tr>
<td></td>
<td>system</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>SAI’s reputation</td>
<td>Blume and Voigt (2007), Torres et al. (2016)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Planning and timing of PA</td>
<td>Morin (2008), Weets (2011), Put and Turksema (2011)</td>
</tr>
<tr>
<td></td>
<td>fulness of PA</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Attitude towards knowl-</td>
<td></td>
<td>Hasan et al. (2013), Lonsdale (2008)</td>
</tr>
<tr>
<td></td>
<td>edge: audit-minded or</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>not audit-minded</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>-----------------------</td>
<td>---------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Results are ‘acceptable’ for the auditee (e.g. recommendations meet auditees’ needs)</td>
<td>Reichborn-Kjennerud and Johnsen (2018), Schwartz (2000), Reichborn-Kjennerud and Vabo (2017), Morin and Hazgui (2016)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PA report</th>
<th>Parliament’s reaction to the report</th>
<th>Torres et al. (2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational learning effect (for auditees)</td>
<td>Morin (2008), Van der Meer (1999)</td>
<td></td>
</tr>
<tr>
<td>Report as instrument for negotiations</td>
<td>Morin (2008), Barrett (2001), Sharma (2007)</td>
<td></td>
</tr>
</tbody>
</table>
Qualitative, quantitative as well as mixed-method studies have demonstrated that PAs generally have impact. The impact, however, varies from audit to audit: while some PAs appear to have had significant impact, others have only marginally contributed to organisations’ improved performance and enhanced accountability. The literature further demonstrates that PAs do not necessarily have positive impacts, and that it should therefore not be taken for granted that PAs lead to improvements.

Following the analysis of previous studies, it must be acknowledged that research remains fragmented and is far from constituting a comprehensible body of knowledge. That is further reinforced by the substantial variety in the scope of studies and the different research designs and theoretical underpinnings they apply. This, in turn, complicates the systematic comparison of those studies. Given that PAs and accountability are closely related, it is noteworthy that only few studies (e.g. Reichborn-Kjennerud and Johnsen, 2018; Reichborn-Kjennerud, 2013a; Wade, 2008) examine PA impacts through the accountability lens.
4 Theoretical framework

4.1 Introduction

In this chapter the theoretical framework that guides this research study is introduced. The applied theoretical framework is comprised of New Institutional Sociology (NIS) as macro theory, and dimensions of accountability relationships informing NIS (Ryan et al., 2002). As relevant key stakeholders’ accountability relationships are constrained and shaped by the political and socio-economic factors of the institutional system in which those relationships are enacted, it is central to analytically situate accountability within this specific institutional context (Jarvis, 2017; Bovens, 2010; Black, 2008; Parker and Gould, 1999). Bovens (2005, p. 184), who refers to accountability as an institutional arrangement, underlines the need of an assessment of accountability through the lens of NIS.

This chapter is divided into two main sections, i.e. NIS and accountability. The first section sets out the broader institutional context, in which PA is defined as an institution, Australia’s Westminster system and accountability framework as the institutional environment and key stakeholder groups and their accountability relationships as the relevant organisational field (Wade, 2008; Dillard et al., 2004; Scott, 1987). Thereafter, relevant NIS concepts of organisational legitimacy, rationalised myths, and organisational change are outlined, which provide further insights into the nature and scope of PA impacts as well as stakeholders’ accountability relationships. After enriching our understanding of the institutional setting, the researcher draws more particularly on stakeholders’ accountability relationships. She elaborates on the notion of accountability as understood in this research study and provides insights into the significance of accountability for PA work, before distinguishing between the three dimensions of political, public, and managerial accountability exerted at the organisational field level.

In his critique of the use of NIS, Suddaby (2010) stresses that institutional theory benefits from insights of other theoretical lenses. Embedding dimensions of accountability relationships within NIS helps the author to better understand the external factors that shape the formation of accountability relationships and how these accountability relationships influence key stakeholders’ perceptions of PAs. This theoretical approach allows the researcher to view the research phenomenon through complementary and mutually enriching and reinforcing lenses. Throughout this chapter the researcher demonstrates that the lenses of NIS and accountability can logically be applied together and elaborates in detail how the application of both lenses adds value to this study by explaining particular phenomena that each lens would most probably not be able to explain if applied alone.

4.2 New Institutional Sociology

New Institutionalism has been applied in various disciplines such as politics, economics and sociology and has, thus, been conferred a multi-disciplinary character (Scott, 2014; DiMaggio and Powell, 1983). This thesis focuses on new institutionalism from the sociological perspective, termed New Institutional Sociology (NIS). NIS is concerned with the influence institutions and their environments have on the organisational field populated by institutional

16 Scott (2014) provides a comprehensive overview of the different streams (i.e. politics, economics and sociology) of new institutionalism.
actors (Scott, 2014; DiMaggio and Powell, 1991; Greenwood and Hinings, 1996; Jepperson, 2002). In other words, most new institutional sociologists posit that institutional actors operating in the organisational field are subject to pressures from the social, cultural, and political setting (Fogarty, 1996; Flack and Ryan, 2003).

In this research study the focus is not on the specific organisations but on their representatives to whom the author refers to as key stakeholders. New institutional sociologists often refer to institutional actors as the subject under study. Zilber (2002) refers to institutional actors as organisational members that are not passive but might become active in choosing actions to respond to institutional pressures and demands, and Dacin et al. (2002, p. 47) refer to institutional actors as those “who give meaning and life to institutions”. There seems to be no unified definition of what institutional actors entail. Scott (1987), for example, defines the state, public officials or professional bodies as institutional actors. Ryan et al. (2002), who study annual reporting practices in the Australian public sector through the theoretical lens of institutional theory informed by accountability theory, refer to government departments, local government councils, ministers and parliament, the AG, and taxpayers, to name only a few, as stakeholders who influence annual reporting practices and policies. In this study the term key stakeholder groups refers to the groups of auditees, VAGO performance auditors, MPs, and journalists.

In contrast to Old Institutional Theory (OIT)\(^\text{17}\) that primarily focuses on individual organisations, the focus of NIS is particularly upon the organisational field level, also termed “network of organizations” by Greenwood and Hinings (1996, p. 1026), emphasising the relationships between institutional actors (Hinings and Tolbert, 2008; Meyer, 2008; Scott, 2014). The idea of NIS is that organisations’ actions are not determined by internal organisational arrangements but rather by other institutional actors populating the organisational field, who decide whether those organisations’ actions and behaviour are legitimate (Hoffman, 1999; Scott, 1991, 1995; see section 4.2.4.1). Whether organisations are granted legitimacy often depends on whether they incorporate the rules, norms, and beliefs prescribed by the institutional environment (Hoffman, 1999; Carruthers, 1995; see section 4.2.4.2). As highlighted by Scott (2014) and Lounsbury (2008) the uniqueness of NIS is rooted in its emphasis on the primacy of culture, underlining how social structures and taken-for-granted meanings are created and have significant consequences for institutional actors.

Before introducing the fundamental concepts of NIS underpinning this study and explaining how they are applied on this research, attention needs to be drawn to the diffuse nature of NIS and the diverse ways in which NIS has been defined (Scott, 1987). Studies by new institutional sociologists such as Wooten and Hoffman (2008) confirm that the lament expressed by DiMaggio and Powell in 1991 (p. 1) about what NIS is about still holds true: “it is often easier to gain agreement about what it is not than about what it is”. Indeed, several theorists noted that ironically the theory itself is not highly institutionalised (Suddaby, 2010; Wooten and Hoffman, 2008; Scott, 1987, 2014), but is rather underpinned by a variety of theoretical formulations claiming a sociological institutional focus (Peters, 2012), which leads us to the need to explicate the different institutional concepts in more detail in sections 4.2.4.1 to 4.2.4.3. Following this discussion, it is not surprising that various scholars argue that one major problem NIS faces is the broad variety on the boundaries of theoretical definitions of core elements of NIS, such as institution, organisational field and institutional environment, as well

\(^{17}\) For a detailed distinction between new an old institutionalism, see DiMaggio and Powell (1991) and Hirsch and Lounsbury (1997).
as NIS concepts relevant for this study (Dacin et al., 2002; Hirsch and Lounsbury, 1997; Hoffman, 1999). In this regard, Scott (1987), in his work on The adolescence of institutional theory, noted that there is no single, unified definition of institutional propositions but rather a plethora of interrelated ideas. He (p. 493), therefore, advises that “the beginning of wisdom in approaching institutional theory is to recognize that there is not one but several variants”. Following Scott’s advice, the researcher acknowledges that there is not one way to apply NIS and draws on those theoretical studies, which she considers most significant in terms of their comprehension of NIS with respect to the purpose of this study (e.g. Scott, 2014; Zucker, 1987; DiMaggio and Powell, 1983, 1991; Dillard et al., 2014).

Scott (2014) emphasised that new institutional sociologists have employed an oversimplified dichotomy between old and new institutional theory, whereas the ideas of NIS do not represent a sharp break with the past, i.e. OIT. Instead, NIS presents new emphases and insights. It is not part of this research study, to contribute to the overblown distinction between old and new institutional approaches (Suddaby, 2010). Instead, the author draws on studies by Greenwood et al. (2002) and Hoffman (1999), who theorise the concept of organisational change originally introduced by OIT (see section 4.2.4.3), whereby they bridge the theoretical divide.

In recent years, numerous accounting scholars have demonstrated the value of NIS for studying institutional processes in the public sector (e.g. Touron, 2005; Burns and Scapens, 2000; Scapens and Varoutsa, 2010; Carruthers, 1995; Carpenter and Feroz, 2001; Fogarty, 1992a and b; Dirschm et al., 2000; Dillard et al., 2004; Van Helden, 2005), including NPM phenomena such as PA work (e.g. Wade, 2008; Parker and Gould, 1999; Jacobs, 1998; Funnell and Wade, 2012; Torres et al., 2016). Although NIS, as argued by Fogarty (1996, p. 246), is to varying degrees applicable to any kind of organisation, it is particularly useful for the analysis of public sector organisations as they “provide the most obvious examples of an institutionalised environment”. With regards to the usefulness of NIS to examine key stakeholders’ perceptions and interpretations, it is argued that the highly institutionalised PA practice in Victoria is applicable for the investigation through NIS. The significance of examining PA work in Victoria and the underlying accountability relationships among stakeholder groups through NIS comes to the fore as numerous accounting scholars (Miller, 1994; Dillard et al., 2004; Mulgan, 2000; Modell, 2009) have announced that they welcome the conduct of NIS-informed research that extends the academic understanding of how accounting practice in the new public sector influences and is influenced by a multiplicity of institutional actors. The aim of the subsequent sections is to reduce the ambiguity of NIS elements and to explain how those are applied on this research.

4.2.1 Institution

Due to the multi-disciplinary character of NIS the institutional school of thought does not offer a single, unified definition of the notion institution (Greenwood et al., 2008; DiMaggio and Powell, 1983; Tolbert and Zucker, 1983). Rather, each discipline seems to either only vaguely define what an institution should entail or professes its own modified concept (Wade, 2008). DiMaggio and Powell (1991, p. 8) highlight that the notion of institution takes on different meanings as we move from economic approaches of institutional theory to sociological approaches:

“In the former approaches, institutions are the products of human design, the outcomes of purposive actions by instrumentally oriented individuals. But in the latter, while institutions are certainly the result of human activity, they are not necessarily the products of conscious design.”

60
In 1995, Scott offered a more precise definition of institutions by introducing the three pillars of institutions, i.e. the regulative, normative and cultural-cognitive pillars, as vital ingredients of institutions. Following Scott’s (1995, 2014) conception, regulatory aspects of institutions involve the capacity to establish rules and regulations, scrutinise others’ conformity to them, and, if required, impose sanctions in an attempt to guide and influence future behaviour. Sanctioning procedures may take place through informal mechanisms such as blaming and shaming or may be more formalised and assigned to specific institutional actors such as police or legal courts (Hoffman, 1999; DiMaggio and Powell, 1983).

Normative aspects of institutions generally take the form of rules-of-thumb and standard operating procedures (Scott, 2008; Zucker, 1987). March and Olsen (1989, p. 21) embrace the normative pillar of institutions when arguing that “[m]uch of the behaviour we observe in political institutions reflects the routine way in which people do what they are supposed to do”. In other words, the emphasis of the normative pillar is on the appropriateness of actions and the distinction between acceptable and unacceptable behaviour (Scott, 2014). In responding to a normative institution, institutional actors may ask “[g]iven this situation, and my role within it, what is the appropriate behaviour for me to carry out?” (Scott, 2014, p. 81). The normative pillar is comprised of norms and values of individuals and groups of actors. Scott (2014, p. 80) emphasises that

“normative expectations […] regarding how specified actors are supposed to behave […] are held by other salient actors in the situation, and so are experienced by the focal actor as external pressure.”

Institutional theorists typically view normative institutional elements as systems that impose control and constraints on institutional actors’ social behaviour (Ruef and Scott, 1998; DiMaggio and Powell, 1983). However, as highlighted by Scott (2014), it is important to recognise that the normative component also enables and empowers institutional actors, their behaviour and actions, as it confers responsibilities and duties, and provides stimulus and guidelines.

New institutional theorists have particularly stressed the centrality of cultural-cognitive elements of institutions (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). Scott (2014) refers to cultural-cognitive elements as symbols in form of e.g. words, signs and gestures that effectively shape the meaning institutional actors attribute to activities, processes and objects. Hoffman (1999) claims that cultural-cognitive institutional aspects form a culturally supported and conceptually correct basis of legitimacy that becomes unquestioned. He exemplifies that it is considered as taken-for-granted that, for instance, environmental activists pursue idealistic or collectivist interests, whereas corporations pursue economic and materialistic goals. Although rules, norms and cultural-cognitive elements are central building blocks of institutions, Scott (2014) claims that new institutional sociologists also need to attend to institutional actors’ behaviours and activities that produce, reproduce, and change institutions. Barley and Tolbert (1997), Zucker (1977) and Meyer and Rowan (1977) claim that over time, institutional actors create and shape institutions through a history of interactions and negotiations resulting in shared typifications and generalised interpretations of actions and behaviour leading to taken-for-granted assumptions, which in turn, pattern future interactions and the formation of relations.

Following Scott (2008, 2014), Zucker (1977) and Barely and Tolbert (1997), this thesis adopts the view that institutions are social constructs that emerge from human activity, have legal or rule-like status, constrain and empower institutional actors and influence how they define their relations to others. In line with these NIS conceptions and Wade’s (2008) definition of ANAO’s PA practice as institution, in this research, PA practice constitutes the institution
under study. In Australia, the PA mandate is now well-institutionalised as appropriate practice for public sector performance assessment and improvement (Funnell and Wade, 2012; Parker and Jacobs, 2015; Gerald, 2015; Guthrie and Parker, 1999; Gendron et al., 2001). This thesis is concerned with the development stage that PA activities in Australia reached in 2009/2010, after a long period of evolution (Parker and Gould, 1999). In Victoria, PA work derives its legal significance from the Audit Act 1994 and holds rule-like status as a component of the state’s accountability apparatus anchored in NPM (Hamilton, 2015; Keen, 1999). It is a heterogeneous phenomenon (Pollitt, 2003), largely formed by its contextual surroundings such as the political, economic and social climate (Hatherly and Parker, 1988; Pollitt et al., 1999), and is of both symbolic and practical significance for key stakeholders.

4.2.2 Institutional environment

In foundational institutional work, new institutional sociologists claimed that the survival of organisations is more influenced by their institutional environment than by the technical environment (Meyer and Rowan, 1977; Orrú et al., 1991; Oliver, 1997). This proposition requires a definition of those two terminologies. Scott and Meyer (1991, p. 123) examined the technical/institutional dichotomy and made the following distinction:

“[T]echnical environments are those in which a product or service is produced and exchanged in a market such that organizations are rewarded for effective and efficient control of their production systems (…).”

“Institutional environments […] are characterized by the elaboration of rules and requirements to which individual organizations must conform if they are to receive support and legitimacy.”

Organisations operating in the construction or manufacturing industry are typically embedded in predominantly technical environments. On the other side of the technical/institutional environment continuum, non-profit and public sector organisations such as schools, churches and hospitals are located that operate in highly institutionalised environments (Meyer and Rowan, 1991; Fogarty, 1996; Scott, 2008). Several authors agree that institutional environments emerge from state structures that shape the environments of organisations through laws and regulations (Scott, 1991; Carroll et al., 1988; Zucker, 1987; Thomas and Meyer, 1984; Thomas et al., 1987). In accordance with this perspective, Dillard et al. (2004) define institutional environments as a macro-level at which political and economic forces are articulated and exercised and where society’s most widely promulgated and taken-for-granted norms, beliefs and practices circulate. In the words of DiMaggio and Powell (1991, pp. 12-3) institutional environments, “creat[e] the lenses through which actors view the world and the very categories of structure, action, and thought”. This does not only happen through rules and regulations. In fact, as proposed by DiMaggio and Powell (1991), Zucker (1977), Fogarty (1996), Tolbert (1985), and Scott (2014), modern organisational forms and procedures are not only manifestations of powerful institutional rules and regulations or rule-like frameworks, but also widely promulgated cultural elements such as taken-for-granted norms and beliefs – what Meyer and Rowan (1991) refer to as institutionalised or rationalised myths (see section 4.2.4.2). Institutional actors experience pressure to adjust their behaviour and processes to those expected beliefs prescribed by the institutional environment in order to be granted legitimacy essential for their survival (Scott, 2008).

According to Parker and Guthrie (1991) and Jacobs (1998), the nature of PA practice depends on the political, legislative and social forces that shape the dynamics of PAs in a particular environment. Following Dillard’s et al. (2004) definition of institutional environment, in this thesis the institutional environment that shapes PAs as institution is comprised of Australia’s
overarching political Westminster governance framework and its underpinning public accountability framework (Aroney et al., 2015; Hamilton, 2015). Australia’s Westminster system and public accountability framework have political and legislative relevance for PAs as institution, emphasise PAs’ significance and set the boundaries of the organisational field (see section 4.2.3).18

Following Dillard et al. (2004) this thesis supports the concept of a cascading hierarchy of institutional influence with the institutional environment as originator of political and legal boundaries and rule-like frameworks shaping and regulating the organisational field. Specific organisational structures, practices and relations are created and evolve at the organisational field level, which provides “the context for the institutions confronted by and embedded in organizations” (Dillard et al., 2004, p. 513).

4.2.3 Organisational field

Rules, norms and taken-for-granted assumptions prescribed by the institutional environment are translated into and absorbed by institutional actors populating the organisational field (Dillard et al., 2004). The institutional environment conditions the foundation of stakeholder relationships, which illustrate the skeleton of the organisational field (Owen-Smith and Powell, 2008; Greenwood and Hinings, 1996). For various new institutional sociologists the organisational field level has become the central unit of analysis (Meyer and Rowan, 1977; DiMaggio, 1991; Wooten and Hoffman, 2008; Greenwood et al., 2002). DiMaggio and Powell (1983, p. 148) define organisational field as “those organizations that, in the aggregate, constitute a recognized area of institutional life”. Essential to this definition is the focus upon ‘sets’ or ‘communities’ of institutional actors as members of organisations that directly interact with each other or are influenced by each other (Greenwood et al., 2002). To this view, Scott (1995, p. 56) adds that strictly speaking, the organisational field is

“a community of organizations that partakes of a common meaning system and whose participants interact more frequently and fatefully with one another than with actors outside the field”.

In his study on the maturity of institutional theory, Scott (2008) noted that early formulations of the organisational field concept put much focus on relational and structural features, while neglecting cultural and symbolic elements (e.g. DiMaggio and Powell, 1983; Scott and Meyer, 1983), whereas more recent research highlights both, relational system and meanings as constituent features of organisational fields (e.g. Haveman and Rao, 1997; Rao et al., 2003; Scott et al., 2000). Hoffman (1999, p. 352) further adds that organisational fields should be seen as centre of dialogue and discussion, where institutional actors with competing interests negotiate what is important.

Organisational fields can be created around a set of products, processes, services or issues (Hoffman, 1999; Scott, 2014). For instance, in their study on institutional change in the education sector in the UK, Ezzamel et al. (2007) refer to organisational field as education field populated by schools, school governing bodies, state agencies, parents, and school network groups, all affected by education reforms. In Hoffman’s (1999) study on institutional change in corporate environmentalism in the US chemical industry, the organisational field of environmental protection is populated by stakeholders from selected industries, environmental

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18 See Public Governance, Performance and Accountability Act 2013, Chapter 2, Part 2-3, Division 3, Section 40 (1), see also Public Accounts and Audit Committee Act 1951, Section 7 (8).
activists and governmental agencies. The organisational field perspective has also been employed in a PA study by Wade (2008); the organisational field of ANAO PA activities is comprised of the ANAO, parliament, PAC, executive government, and the Australian Public Service (APS). As DiMaggio and Powell (1983) and Ezzamel et al. (2007) have observed, the organisational field level as an analytical concept is fluid as evidenced by the different facets that have been emphasised by different scholars.

Organisational field membership for this study is defined by who is influenced and affected by VAGO PAs. Thus, the organisational field embraces the stakeholder groups of auditees, performance auditors, MPs and journalists, who are likely to have overlapping as well as potentially conflicting interests. This selection of institutional stakeholders is in accordance with most NIS theorists’ perspectives that institutional actors exerting pressure and influencing institutional processes do not only include government bodies but also the media (Scott, 2014; Dillard et al., 2004; Hnings and Tolbert, 2008). Since interactions between key stakeholders are routinised due to the institutionalised PA practice in Victoria the relevant organisational field is considered a mature field in which stakeholders have a strong mutual awareness of the presence of other stakeholders occupying the field (Scott, 2014; Greenwood and Suddaby, 2006).

Given that all key stakeholders populating the organisational field are involved in various relationships the researcher proposes that NIS allows for an extensive examination of accountability relationships between the stakeholders within the relevant institutional PA setting. Thereby, the researcher follows Wooten and Hoffman (2008, p. 139) who claim that organisational fields must be seen as “relational spaces”, where institutional actors “involve themselves with one another in an effort to develop collective understandings regarding matters that are consequential for organizational and field-level activities”. Adopting this field-level perspective is particularly relevant as PA work, according to Guthrie and Parker (1999, p. 327), constitutes a dramatic play in which actors as well as the public as audience “continually create and review the execution of the drama”. According to Scott (2014) the organisational field is of particular significance for the analysis of institutional processes as it is the field level, where NIS concepts come into effect.

4.2.4 Relevant institutional concepts

In applying NIS, scholars risk becoming lost in the diversity of institutional elements and concepts. For the theoretical framework the author has focused on institutional concepts that are of fundamental significance for this study. The concepts that have potential to contribute to the achievement of the central research objective are organisational legitimacy, rationalised myths, and organisational change. The following sections explain these concepts and outline how they are applied. Further, it is demonstrated that these concepts are interconnected and offer an integrated theoretical conception.

4.2.4.1 Organisational legitimacy

Legitimacy as one of the core concepts of NIS influences how organisations act and behave (Suchman, 1995; Deephouse and Suchman, 2008; Deephouse et al., 2016). Suchman (1995) and Scott (2014) define legitimacy as a condition that reflects organisations’ consonance with rules and regulations, normative values, or their alignment with cultural-cognitive frameworks. Based on this definition it is argued that once conferred, legitimacy creates a picture of social acceptability and credibility and is a conduit to the survival of an organisation and its economic well-being (Scott, 2014; Meyer and Rowan, 1977; Deegan, 2002). Legitimacy has further been shown to affect organisations’ performance as well as their relationships to other organisations (Pollock and Rindova, 2003; Singh et al., 1986; Black, 2008). Being granted legitimacy is a
condition *sine qua non* for organisations to obtain access to resources and enjoy largely unquestioned freedom to pursue their operations. Organisations whose legitimacy is questioned, are more vulnerable to claims that they are negligent, have less freedom and are, in fact, closely monitored by significant others (Meyer and Rowan, 1977; Meyer and Scott, 1983).

Organisations are granted legitimacy when significant others consider them as desirable and appropriate. Bitektine (2011) reminds us that organisational legitimacy is rendered by others who evaluate and judge organisations’ processes, structures, and outcomes, their leaders, and relations to other actors, and based on this assessment support, remain neutral, or sanction organisations. It has been widely recognised that legitimacy exists in “the eye of the beholder” (Zimmerman and Zeitz, 2002, p. 416) and that sources conferring legitimacy differ from one organisational field to another (Bitektine, 2011). The status of legitimacy is conferred by actors empowered and authorised to grant legitimacy (Scott, 2014; Watts et al., 2010). Legitimacy sources commonly identified in institutional and accounting literatures are parliament (Baum and Oliver, 1991; Meyer et al., 1983), auditors (Gendron et al., 2001; Mulgan, 1997; English, 2007), as well as the media (Deephouse and Carter, 2005; Deephouse and Suchman, 2008; Galaskiewicz, 1985). In accordance with legitimacy sources identified in previous studies, the sources relevant for this study are MPs, journalists and performance auditors. The media as proxy for the public opinion does not only reflect society-wide legitimacy but also holds potential to significantly influence the general public’s opinion (Scott, 2014; Greenwood et al., 2008). Due to their broad reach, media reports and articles have widely been considered as an operationalisation of legitimacy (Pollock and Rindova, 2003; Brown and Deegan, 1998; Deephouse and Carter, 2005). The voice and tone of the media are often used as surrogate measures of organisations’ legitimacy with the norms and values of the general public (Deephouse and Carter, 2005). Hybels (1995) contends that the media, by reporting on organisations’ actions does not only monitor those organisations but also considerably influences other actors in their decision-making, for instance, when allocating resources. The media as battleground for the negotiation of organisational legitimacy offers an arena where de-legitimising attacks are executed (Bitektine, 2011; Ingram and Rao 2004). Parliament actively participates in this negotiation process. As parliament does not only influence regulation and legislation but also plays a significant role in the allocation of annual budgets (Hybels, 1995), for public sector organisations it is essential to be perceived as legitimate by parliament. Parliamentary hearings, where the media and performance auditors are present, offer an arena for the negotiation of public sector organisations’ legitimacy.

It is critical to note that not all legitimacy sources have equal weights and, therefore, their legitimacy assessments do not have equal importance (Ruef and Scott, 1998). This often leads to situations in which organisations seeking legitimacy strategically choose the source with which they shall conform (Bitektine, 2011; Elsbach and Sutton, 1992). One useful approach for gaining or maintaining legitimate status when confronted by inconsistent legitimacy requirements expressed by multiple sources is decoupling, which enables organisations to seek or retain legitimacy while engaging in business as usual (Boxenbaum and Johnson, 2008). Auditees may, for instance, implement changes suggested by performance auditors, although decoupling them to be granted legitimacy from the AG while implementing processes conform with the government of the day in order to preserve their legitimacy (Reichborn-Kjennerud, 2014a).

Apart from the variety of institutional actors authorised to grant legitimacy, Galaskiewicz (1985) and Deephouse and Suchman (2008) emphasise that accountability relationships play a role in the legitimacy-conferring process. In this context, Black (2008) contends that accountability relationships are the route through which legitimacy claims are constructed,
validated, and/or contested. In the same vein, Harlow and Rawlings (2007, p. 545) speak of “legitimation through accountability” and Bovens (2005), as will be shown in section 4.3.2, proposes that obtaining, maintaining and enhancing legitimacy is one of the central functions of accountability. However, although accountability relationships can be critical for legitimacy, Black (2008) contends that legitimacy is not necessarily always dependent on accountability relationships. The author asserts that organisations may be afforded legitimacy for various reasons, even though they make no attempt to be accountable.

This thesis adopts Black’s (2008) view that accountability and legitimacy are related concepts. As outlined earlier, key stakeholder groups can take the role as legitimators. As sources of legitimation they may influence their managerial, political and public accountability relationships (see section 4.3.3) in the organisational field (Broadbent and Laughlin, 2003). The NIS-concept of legitimacy informs the accountability lens and helps the researcher to gain further insights into how stakeholders perceive their accountability relationships (see RQ1). This, in turn, may have further consequences with regards to stakeholders’ interpretation of PA impacts.

Institutional actors gain legitimacy by conforming to beliefs, values, and rules imposed by the institutional environment (Deephouse, 1996; Ruef and Scott, 1998; Bitektine, 2011). Meyer and Rowan (1977), in their pioneering work, emphasise how organisations that adhere to the prescriptions of rationalised myths in the institutional environment can gain legitimacy and thereby protect themselves from having their conduct questioned. Hence, legitimacy as one of the survival-enhancing phenomena may not only result from the legitimating powers of significant others (Deephouse et al., 2016; Deephouse and Suchman, 2008; Kamens, 1977), but also from conforming to the myths embedded in the institutional environment.

### 4.2.4.2 Rationalised myths

In their foundational work on NIS, Meyer and Rowan (1977) argued that in modern societies formal organisational structures arise as reflections of rationalised institutional rules. These rationalised institutionalised rules function as rationalised myths that are incorporated by organisations. Myths are rationalised because they take the shape of rule-like prescriptions reflecting values, norms, beliefs and taken-for-granted assumptions that are widely shared and embodied amongst institutional actors in the organisational field (Touron, 2005; Barley and Tolbert, 1997). This implies that institutional actors are influenced by wider belief systems and external cultural frameworks (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). New institutional sociologists agree that organisations that embody rationalised myths demonstrate that they act in a legitimate manner (Carpenter and Feroz, 2001).

Meyer and Rowan (1977) provide examples of myths: they define jealousy, anger, altruism, and love as myths that explain actions of individuals, and the professions of doctors and accountants and the services of assembly lines as myths that explain organisational activities. The authors contend that the impact of rationalised myths on institutional actors is enormous: they can empower, but also constrain their behaviour and actions and specify the means for coping with them. Moreover, rationalised myths are not stable, but rather mutable objects that can increase and decrease in their meaning (Bealing, 1994; Barley and Tolbert, 1997).

Accounting literature offers a variety of identified rationalised myths, such as auditor independence (Wade, 2008), public sector performance measurement systems (Brignall and Modell, 2000), GAO’s work processes (Dirsmith et al., 2000), and Generally Accepted Accounting Principles (GAAP) (Carpenter and Feroz, 2001).

To gain more comprehensive insights into the phenomenon of PA impacts, it is an essential step to examine the usefulness relevant stakeholders attribute to PAs (Schwartz and Mayne,
2005; Wade, 2008). Hence, one rationalised myth considered in this thesis is PA usefulness. PAs are useful when they add value to audited organisations through the achievement of performance improvements (Morin, 2001; Raudla et al., 2015; Pollitt and Summa, 1997). As previous studies on PA impacts found that PAs have not always made positive contributions to audited organisations (Bowerman et al., 2000; Braithwaite, 2008; Power, 1997), it is essential to examine whether key stakeholders generally consider PAs as useful. Another rationalised myth embedded in the relevant institutional environment and examined in this study is the three Es, the underlying concepts of PA (Parker and Gould, 1999; Guthrie and Parker, 1999). Empirical findings by Parker and Jacobs (2015) support the definition of the three Es as a rationalised myth. The authors discovered that PAs conducted across Australia between 2001 and 2012 have not always focussed on all three Es (see chapter 3). That, however, may affect key stakeholders’ interpretations of impacts. The final rationalised myth of relevance for this study is Power’s (1997, 2000) audit society. Emerging from the audit explosion, as a consequence of the NPM and its demands for more accountability and PA activities (Hood, 1995; Power, 2000; Pierre and de Fine Licht, 2019), the audit society has created a growing population of auditees confronted with an intensification of audits (Bowerman et al., 2000). Power (1997, 2000) claims that auditees are likely to react to the increasing pressures of the audit intensification either through adaptation or resistance. As illustrated by Appendix 1, PA activities in Victoria have indeed increased over the relevant time period. Hence, it is essential to examine how auditees perceive the intensification of PAs and whether it affects the perceived usefulness and potential impacts.

4.2.4.3 Organisational change

Various institutional theorists have concluded that NIS “neither denies nor is inconsistent with change” (Greenwood et al., 2002, p. 59), and, in fact, contains “an excellent basis” (Dougherty, 1994, p. 108) for the investigation of organisational change as it outlines the contextual dynamics of the institutional environment and organisational field level, which may trigger organisational change (Leblebici et al., 1991; Ribeiro and Scapens, 2006). Other scholars have provided opposing views, arguing that NIS fails to adequately address the concept of organisational change as it usually provides explanations for organisational similarity, i.e. isomorphism (DiMaggio and Powell, 1983; Orrú et al., 1991). With regards to the latter, however, Hoffman (1999, p. 351) clarifies that the focus of NIS on isomorphism “facilitates a popular misconception of the theory as having only stability and inertia as its central defining characteristics” (see also DiMaggio, 1995; Suddaby, 2010). The author corrects this misconception by reintroducing the OIT’s concept of change into the new institutionalism literature and thereby follows Greenwood and Hinings (1996) who bridge the old and new institutionalism by applying concepts of change seeking to provide a more complete account for understanding organisations’ responses to institutional pressures. By embedding the concept of organisational change anchored in OIT in NIS, the researcher of this study follows propositions made by scholars who called for merging OIT concepts with new institutional approaches in order to create one more coherent theory (e.g. Hoffman, 1999, Greenwood and Hinings, 1996; Hirsch and Lounsbury, 1997; Kraatz and Zajac, 1996). In fact, the ideas about organisational change drawn from OIT “fit with neoinstitutional ideas about inertia and resistance to change” (Hoffman, 1999, p. 367), relevant for this study.

To explore changes imposed on audited organisations, this thesis borrows concepts of change from the organisational change literature, which has increasingly distinguished between revolutionary and radical (Greenwood and Hinings, 1996), also labelled frame-breaking change (Nadler and Tushman, 1989), and convergent change (Greenwood and Hinings, 1996), also referred to as incremental change (Greenwood and Hinings, 1993). Convergent or incremental change is located on the lower scale and is associated with fine tuning of existing
orientations within the parameters of the present frame. At the opposite end on the continuum, radical organisational change refers to the ability of transforming the entire organisation by breaking loose from existing orientations through moving from one structure or concept to another. The dimensions of evolutionary and revolutionary change are concerned with the scale of upheaval and adjustment (Greenwood and Hinings, 1996).

Previous PA studies mention general kinds of changes, while only minimal reference has been made to the dimensions of changes and the usefulness of such changes. The concepts of change outlined above help the researcher to further explore known forms of changes, to investigate unknown and unexpected forms, and to identify their magnitude. An examination of organisational changes and their magnitude as experienced by participants of this study provides insights into key stakeholders’ perceived usefulness of those changes.

4.3 Accountability

In this research study, it is the organisational field level that provides the revealing foundation for the examination of accountability relationships between key stakeholders (Ryan et al., 2002). As in the accounting profession, there is a distinct lack of consensus with respect to what holding to account and being held to account implies (Cooper and Owen, 2007), the following section sheds theoretical and empirical light on the terminological ambiguity of the notion of accountability. Thereafter, accountability in the PA context is addressed before relevant dimensions of accountability relationships are outlined.

4.3.1 Terminological ambiguity: the notion of accountability

Research on accountability has long suffered from academics’ inability to reach consensus on how to define this chameleon-like term that appears to have different meanings to different people (Bovens, 2010; Mulgan, 2000; Sinclair, 1995; Luke, 2010). The notion of accountability appears to be controversial and paradoxical (Parker and Gould, 1999; Jos and Tompkins, 2004; Mayne, 2007). In fact, the multi-faceted nature of the term accountability has led to distinct but complementary problems in accountability research (Ebrahim, 2003): first, a considerable body of theoretical and empirical studies has been published that does not adopt an explicit conceptualisation of accountability (Dunn and Legge, 2001; Jarvis, 2014). Second, scholars have argued for a more comprehensive definition of the notion of accountability. This, in turn, resulted in the classification and exploration of various dimensions of accountability (Mulgan, 2000, 2003; Bovens, 2007; Parker and Gould, 1999; and see section 4.3.3) that have expanded rather than consolidated previous research efforts and led to an increased number of less explicit conceptualisations of accountability (Bovens, 2010; Jarvis and Thomas, 2012). According to Bovens (2010, p. 947) this disjointedness of definitions is due to the many discussions about accountability, that “seem to go in circles, as every volume and author tries to redefine accountability in his or her own way”.

The various interpretations and conceptualisations of accountability are partly due to different streams of academic research. Bovens (2010) noted that American scholars often apply accountability as a virtue, as a set of normative standards for the assessment of public officials’ behaviour (e.g. Koppell, 2005; Dunn and Legge, 2001; Klingner et al., 2001; Wang, 2002). Used in this manner, scholars often reference accountability as an adjective in order to describe the behaviour of public officials either as positively or negatively, i.e. being accountable or unaccountable (Jarvis, 2014; Bovens, 2010). Therefore, accountability as a virtue has strong positive connotations as a (desirable) quality (Dubnick, 2007).

In contrast, as Bovens (2010) argues, Australian, British, Canadian and Central European academics often consider accountability as an institutional relation or arrangement, a social
mechanism, in which an individual or group can be held accountable by another individual or group (e.g. Aucoin and Jarvis, 2005; Bovens, 2007; Bovens et al., 2008; Mulgan, 2003; Parker and Gould, 1999). Their focus is not on whether individuals or groups acted in an accountable way but on how institutional accountability arrangements are operationalised (Bovens, 2010). Accountability as a mechanism entails a relationship between the actor (the accountee) and the forum (the accountor) (Pollitt, 2003). Bovens (2007, p. 450) offers a definition of accountability as a mechanism, which is applicable to the institutional PA setting:

“Accountability is a relationship between an actor and a forum, in which the actor has an obligation to explain and to justify his or her conduct, the forum can pose questions and pass judgement, and the actor may face consequences.”

In other words, an accountability relationship implies that individuals or groups (actors) are required to provide information about their actions or non-actions (answerability) to other individuals or groups (forum), justifying their actions or non-actions (amenability) and taking responsibility for them (Jabbar and Dwivedi, 1988; Parker and Gould, 1999; Roberts and Scapens, 1985; Bemelmans-Videc, 2007; Gray and Jenkins, 1993; Thynne and Goldring, 1987). With respect to the current study, key stakeholders may take the roles of the actor and/or forum depending on the dimension of the accountability relationship(s) (see section 4.3.3).

As indicated by Bovens’ (2007) definition an accountability relationship involves the possibility of debate, the posing of questions by the forum, the requirement for the actor to provide answers, and eventually, the judgement of the actor by the forum. Judgement may result in the imposition of corrective action or sanctions on the actor (Bovens, 2010; Aucoin and Jarvis, 2005). With respect to the consequences of being held to account, Bemelmans-Videc (2007, p. 24) considers sanctioning a vital part of a formal accountability relation and refers to the ability of parliament as a higher administrative echelon to impose sanctions on auditees that “may vary from formal judicial convictions to the very public nature and resulting media attention”.

This study adopts Bovens’ (2010) perspective, who proposes that to make progress in accountability research it is necessary to make a distinction between accountability as a virtue and a mechanism. In this research study particular attention is paid to accountability as a mechanism, centred on stakeholders’ accountability relationships as institutional arrangements (Mulgan, 2003; Aucoin and Jarvis, 2005). Examining accountability as a mechanism the focus is on developing a picture of how key stakeholders perceive their accountability relationships, to whom they feel accountable, for what and how (Jarvis, 2014).

4.3.2 Accountability in the institutional performance audit setting

Given the broad term of accountability, accounting literature has identified a multiplicity of purposes that accountability serves in the public sector (Broadbent and Laughlin, 2003). Accountability should achieve the purpose of attaining desired performance, thereby assuring that resources are spent with due regards to the three Es (Parker and Gould, 1999; Aucoin and Heintzman, 2000). Viewed as a mechanism, accountability is also supposed to serve as a tool to promote and encourage learning in the pursuit of continuous improvement in governance and public management (Lonsdale, 2007; Behn, 2001). Lastly, accountability is supposed to achieve the purpose of providing legitimacy (Christensen et al., 2014; Buchanan, 2002; Bovens, 2010). As PAs play a role in all these purposes, the concept of accountability constitutes the rationale for the existence of PAs (Lonsdale, 2007; Parker and Gould, 1999; Furubu, 2011). The significance of the concept of accountability for the study of PA work is further emphasised by Flint (1988, p. 23) who states that:
“[t]he primary condition for an audit is that there is a relationship of accountability [and that] [t]he subject matter of accountability is too remote, too complex and/or of too great significance for the discharge of the duty to be demonstrated without the process of audit.”

In this study, PA work as institution is regarded as social structure that relies on rules and taken-for-granted norms and routines which have been established as guidelines for social behaviour (Heidhues and Patel, 2012). PAs as an “aspect of accountability” (OECD, 1996, p. 12) are built on accountability relationships that “represent typifications of habitualized actions that provide meaning and stability” (Heidhues and Patel, 2012, p. 46) and form the norms and routines adopted by key stakeholders (Lonsdale, 2008; McPhail et al., 2016). The possible impacts of PAs can therefore not be studied outside the accountability conception of the PA network and without an examination of stakeholders’ accountability relationships.

4.3.3 Various dimensions of accountability relationships

In the public sector accountability relationships often extend beyond a two-party arrangement between one accountee and one accountor (Ryan et al., 2002; Roberts, 2002; Parker and Gould, 1999; Luke, 2010). In fact, multiple conversations are going on at the same time between different parties. Accountability as a relational concept operates along multiple axes (Halachmi, 2002c): (1) who is accountable, (2) for what is one accountable, and (3) to whom is one accountable. Given the multifaceted nature of accountability relationships in combination with the complexities of the public sector, identifying accountability relationships in the PA setting can be a difficult undertaking (Stewart, 1984; Mulgan, 1997; Parker and Gould, 1999; Gray and Jenkins, 1993). That is also emphasised by Behn (2001) and Furubu (2011) who argue that it is possible for stakeholders to be the accountor in one accountability relationship while being the accountee in a different accountability relationship. Acknowledging how difficult and challenging it is to answer the questions above, Barrett (2001) accepts that in the complex environment of the public sector there is a continuum of accountability relationships between public sector organisations, performance auditors, parliament and the media.

In addition to the multiplicity of accountability relationships, it may also be the case that certain relationships have varying influence and that the status of some stakeholder groups’ accountability relationships carry considerable weight (Lonsdale, 2008). As some accountability holders may be considered important sources of legitimacy, stakeholders assume to be rewarded in form of increased legitimacy when prioritising the accountability demands of those groups (Romzek, 2000; Ezzamel et al., 2007). In this regard, Romzek (2000, p. 40) emphasises the importance for public servants to “accommodate expectations from several different legitimate sources and be answerable for their behaviour under any and all accountability relationships that are relevant”. In her view, public servants are successful when they manage to play each role as the demands and expectations of the various stakeholders change.

Dimensions of accountability therefore need to be understood with regards to the different, sometimes conflicting relationships between stakeholders. This is particularly important for governments in societies such as Australia, where the trust of the increasingly critical public in the government is fragile, where citizens demand more accountability for performance (Bovens, 2010; Power, 1997), where societal expectations for improved public services are greater than ever (Pollitt and Bouckaert, 2011), and where the media becomes more aggressive and intrusive (Besley and Prat, 2006). We know from previous studies that when PAs are conducted, several accountability relationships of different dimensions are operationalised
simultaneously (Reichborn-Kjennerud, 2013a and b, 2015). Assumptions about how those accountability relationships are operationalised have been made by various scholars (e.g. Parker and Gould, 1999; Kluvers, 2003; Tippett and Kluvers, 2010), however, they have not been tested. An exception is Sinclair’s (1995) early study on CEOs of Australian public sector organisations, in which she provides empirical evidence that accountability can take various dimensions and is continually being socially constructed over time. Given the presence of several legitimate sources and multiple, diverse accountability expectations, considering various accountability dimensions is most appropriate and constitutes a significant part of this study as it is the dimension of an accountability relationship that

“can be expected to affect the information demanded or given and the resultant pursuit of accountability for different things [which] may lead to preferences for different types of information presented.” (Parker and Gould, 1999, p. 119)

In the wealth of accountability literature, multiple dimensions of accountability, such as personal/professional (Mulgan, 2000), financial (Sinclair, 1995), managerial (Stewart, 1984), political (Parker and Gould, 1999) and public accountability (Mulgan, 1997) have been identified. To focus this study and to give sufficient attention to the three primary accountability dimensions that “have been similarly differentiated in theoretical research” (Sinclair, 1995, p. 222), this thesis is concerned with the dimensions of public (Mulgan, 1997, 2000; Luke, 2010; Kloat and Martin, 2001), political (Romzek and Dubnick, 1987; Parker and Gould, 1999) and managerial (Glynn and Perkins, 1997; Stewart, 1984) accountability. The decision as to which dimensions of accountability relationships to focus on is further underlined by the relevant institutional environment, which emphasises the importance of public and political accountability, and the organisational field level, at which all three dimensions of accountability relationships are played out. For reasons illustrated in previous and following sections, the researcher argues that how key stakeholders perceive their accountability relationships, does potentially influence the nature and scope of PA impacts.

4.3.3.1 Political accountability

Political accountability has long been considered a vital component for the accurate functioning of a democratic political system such as that of Australia (Bovens, 2007; Parker and Gould, 1999). In an attempt to define political accountability, Bovens (2007), Stewart (1984), Sinclair (1995), and Thynne and Goldring (1987) refer to upward and/or hierarchical accountability – exercised along the chain of accountabilities – that complies with Westminster traditions. Political accountability is underpinned by a clear line of authority and accountability along which the superior-subordinate relationship between accountability forum and actor makes the obligation to provide an account (Bovens, 2010). An accountability forum generally obtains its legitimacy from direct authority and power (Jarvis, 2017).

In this classic hierarchical chain of accountability, auditees are directly accountable to their immediate superiors, the executives, who are accountable to their ministers (Bovens, 2010; Barton, 2006). While ministers are held to account by MPs. MPs are politically accountable to citizens (Parker and Gould, 1999; Day and Klein, 1987), who hold MPs accountable through the ballot box at election time (White and Hollingsworth, 1999; Pallot, 2003; Bemelmans-Videc, 2007). In countries that have a parliamentary system, MPs are key actors in the chain of accountability and are considered as vehicle through which political accountability is exercised. Political accountability as outlined in this section tends to be characterised by high levels of politicisation. Bovens (2010) claims that when political accountability is exercised, scapegoating and blame gaming instead of learning are often the results. This may restrict and slow down the entrepreneurship and creativity of public officials.
Despite being one of the most commonly known and long-standing dimensions of accountability, Sinclair (1995) argues that the straight-line accountability relationship prescribed by the political dimension bears little resemblance to what really happens. Jarvis (2017) adds to this critique that the political dimension has simply been outpaced by the speed of public sector reform. The author further considers the political dimension to be incompatible with the complexity that characterises contemporary public sector organisations and the ways in which advanced democracies are governed. Sinclair (1995) found that despite political accountability’s poor resemblance to the real world, public sector CEOs perceived this dimension to be important as it protects their organisations from getting directly involved in political affairs. It has been recognised that the media is gaining power as an informal forum for political accountability (Bovens, 2006, 2010). This is also emphasised by Besley et al. (2002, p. 45) who exemplify that

“If a bridge or a dam is being built, citizens can only ascertain whether the authorities have paid the proper attention to the relevant costs and benefits through media scrutiny”.

The media as political watchdog enables the public to scrutinise governments’ spending of taxpayers’ money (Besley and Prat, 2006). Reichborn-Kjennerud and Johnsen (2018) claim that the impact of PAs may, in fact, depend on political accountability mechanisms, in which MPs and the media are involved. While performance auditors’ efforts to hold public sector organisations to account through their PA reports do not necessarily result in the desirable changes, the pressure increases once MPs make use of those reports to hold auditees accountable. Reichborn-Kjennerud and Johnsen (2018, p. 17) conclude that “what matters when it comes to actual changes is accountability pressures”.

Over the recent decades, the movement of the public sector towards NPM and several developments in administrative law\(^{19}\) have shifted the focus to alternative dimensions of accountability relationships, such as managerial and public dimensions, which have been labelled as more horizontal accountability relationships compared to the traditional vertical-chain version the Westminster orthodoxy indicates (Parker and Gould, 1999; Mulgan, 1997; APSC, 2015; Fuller and Roffey, 1993). Subsequent sections elaborate on those alternative accountability dimensions.

### 4.3.3.2 Managerial accountability

In light of today’s institutionalised NPM regime, accountability in the public sector has expanded beyond the political realm to include managerial accountability, also termed accountability for performance (Aucoin and Heintzman, 2000; Mayne, 2007; Parker and Gould, 1999). As this term implies, the values embodied in managerial accountability are the three Es (Lonsdale, 2011; Parker and Guthrie, 1993), inferring a result and performance-based approach which involves the monitoring and measurement of inputs, outputs and outcomes for the purpose of improving public sector performance (Jacobs, 2000; Christensen and Laegreid, 2013). In this regard, Glynn and Murphy (1996, p. 127) define managerial accountability as “accountability by managers for the achievement of defined, and perhaps agreed, resource utilization objectives”. Hence, the managerial dimension of accountability requires that those

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\(^{19}\) See e.g. the Freedom of Information Act 1982, the Financial Management and Accountability Act 1997, and the Public Service Act 1999.
with delegated authority are answerable for the use of resources to produce certain outputs (Sinclair, 1995). White and Hollingsworth (1999) argue that in contrast to the political accountability dimension, managerial accountability is exercised internally, within public sector organisations, whereas Bemelmans-Videc (2007, p. 29) provides the view that managerial accountability “entails internal, but also mixed internal/external supervision like accountability to […] supreme audit institutions […] and the like.”

4.3.3.3 Public accountability

Public accountability is meant to create and assure public confidence in government and to bridge the gap between citizens and government representatives (Aucoin and Heintzman, 2000; Bovens, 2010; Parker, 2014a). Sinclair (1995) and Parker and Gould (1999) define public accountability as dimension with outward orientation and public officials’ more direct answerability to citizens through various mechanisms such as media reports and public parliamentary hearings. In this regard, McPhail et al. (2016) equate public accountability with ‘public dialogue’.

Arguably, public accountability is becoming less controllable and predictable for public officials (Parker and Gould, 1999; Burritt and Welch, 1997; Goddard and Powell, 1994), who are now, as Mulgan (2000) notes, accountable outwards to the public, upwards to their superiors through the hierarchical chain, as well as within their own organisation. In the words of the OECD (1996) public officials work in a fishbowl that is observed from every angle creating situations where public sector organisations are under intense public scrutiny (Lapsley, 2008). The result is “a web of multiple, overlapping accountability relationships” (Romzek, 2011, p. 28) in which multiple layers of various types of accountability are established at different times and at different levels (Lindberg, 2013). This multiplicity of public officials’ accountability relationships is further emphasised by the Australian Public Service Commission (APSC, 2015), which claims that

“hierarchical relationships have now been complemented by public servants’ duty to explain or justify their actions to various review bodies and directly to Parliamentary committees.”

The literature generally supports the fact that PA work significantly contributes to public accountability (Gerald, 2015). Sharma (2007), for instance, argues that pressures for public accountability are at the centre of the PA reporting process.

While not necessarily questioning the multiplicity of accountability dimensions, Wade (2008, p. 161) conceptualises public accountability as a “two-dimensional amalgam of political and managerial accountability”. White and Hollingsworth (1999, p. 200) support this view in the PA context:

“The system of external audit […] contributes to the democratic [i.e. political] accountability of government by providing expert information to Parliament, which can be used to hold government to account. Audit also reinforces the internal system of managerial accountability which operates within governments. Of crucial importance is that audit links democratic and managerial accountability, allowing Parliament to a certain extent to participate in the real business of government.”

This complementarity of outlined accountability dimensions is further emphasised by Stewart (1984) and Parker and Gould (1999) who exemplify that when public officials are accountable to their superiors within the organisation (managerial accountability), their accountability relationship becomes politicised because their superiors represent the hierarchical chain of accountability, which, at the end of the continuum, also includes the citizens (public accountability). Also, Jarvis (2017) concludes that in actual practice, variations of conjoined
accountability dimensions are played out. Following White and Hollingsworth (1999) and Wade (2008), who emphasise the significance of political, managerial and public accountability dimensions in the audit context, this thesis applies these dimensions to examine the stakeholders’ accountability relationships at the organisational field level. This selection of accountability dimensions is consistent with the boundaries the institutional environment sets for the conduct of PAs in Victoria.

4.4 Chapter conclusion

This chapter introduced and explained the theoretical framework of this research study and outlined how it is applied. NIS as macro theory not only provides rich perspectives to analyse PAs within the broader institutional setting, but also offers the tools for an examination of how different dimensions of accountability relationships between auditees, performance auditors, MPs and journalists are operationalised in practice. This chapter also identified the NIS concepts of organisational legitimacy, rationalised myths, and organisational change that offer potential value for exploring stakeholders’ perceptions of accountability relationships and their interpretations of PA impacts. Through the application of this comprehensive theoretical framework the researcher is capable of offering more meaningful and deeper insights into the phenomenon under research. The next logical step in this research study is to outline the underlying research design.
5 Research design and methodology

5.1 Introduction

The objective of this research study to capture key stakeholders’ perceptions of their accountability relationships and interpretations of PA impacts underlines the need for a research design that allows for a comprehensive elaboration on stakeholder perspectives from different angles. Therefore, a sequential mixed-methods design was adopted using document analysis, a web-based survey questionnaire and in-depth semi-structured interviews, providing the tools to yield an enriched, elaborated understanding of stakeholders’ interpretations and perceptions. With respect to the applied mixed-methods approach, the discussion is organised around the following sections: at first, the appropriateness for the adoption of a mixed-methods approach addressing the research purpose and RQs is outlined. Thereafter, it is described how data was collected using the methods relevant for this study. Also, the chapter provides details on how access to study participants was obtained. Further, employed analysis techniques for qualitative and quantitative data are described. The chapter closes with an outline of how data was converged in a triangulation fashion.

5.2 Data-collection method: using a mixed-methods design

Mixed-methods research designs combining qualitative and quantitative approaches in single research projects have gained solid ground across academic disciplines including accounting (Caracelli and Greene, 1993; Creswell and Plano Clark, 2011; Greene and Caracelli, 1997; Modell, 2010). In fact, mixed-methods research designs have extensively been discussed in the accounting literature and calls have been made by various scholars to mix data-collection methods to conduct more effective research (e.g. Anderson and Widener, 2007; Feilzer, 2010; Lillis and Mundy, 2005; Modell, 2005).

This research study employs a mixed-methods design which seeks to draw from the strengths of both paradigms while overcoming the limitations of a purely qualitative or quantitative approach to create research outcomes stronger than either method individually. Thereby, the researcher echoes Richardson (2012) and Malina et al. (2011), who criticise accounting scholars for having separated into methodological camps showing only little interest in refining and enhancing the incomplete picture. Malina et al. (2011, p. 60) claim that in accounting research, there is a need to accept the complementarity of paradigms:

“We, as the accounting research community, have to face the fact that both numbers and words convey meaning and both are needed if we are to understand the world.”

In earlier studies, Solomon (1991) and Firestone (1987) propose that in mixed-methods research the quantitative component persuades through de-emphasising individual judgment and explaining the actions of large numbers of people. On the other side, the qualitative component persuades through rich description and exploration of the research phenomenon, likely to provide insights into the possible reasons for peoples’ actions, thereby overcoming abstraction inherent in quantitative research (Malina et al., 2011). The chief rationale for employing a mixed-methods approach is that a combination of both methods is necessary as neither quantitative nor qualitative methods alone are able to appropriately generate the complete picture (Teddle and Tashakkori, 2003; Erzberger and Kelle, 2003). In other words, for this research “[e]ach source of data represents an important piece in a jigsaw” (Bryman et al., 2008, p. 264).
The majority of prior PA impact studies have been of qualitative nature, with interviews and document analysis the most commonly used data-collection methods. Quantitative impact studies have most often based their findings on survey results. In view of the missing link between qualitative and quantitative findings from previous PA impact studies, this study employs a mixed-methods approach in search of empirical insights into PA impacts that go beyond previous qualitative and quantitative perspectives (Malina et al., 2011; Onwuegbuzie and Johnson, 2006; Solomon, 1991). The applied mixed-methods design is most likely to enrich the knowledge of PA impacts through the convergence and corroboration of findings and the enhanced level of confidence produced by synthesising those findings from both approaches (Greene et al., 1989; Foss and Ellefsen, 2002; Moran-Ellis et al., 2006).

Various mixed methods theorists have developed a multitude of different mixed-method typologies (e.g. Bryman, 2006b; Cameron, 2014; Mertens, 2005; Morse, 2003, 2010; Tashakkori and Teddlie, 1998, 2003). Teddlie and Tashakkori (2003) noted that methodologists distinguish between nearly forty different typologies of mixed-methods designs. As these classifications are drawn from a variety of social science disciplines, they emphasise different facets of mixed-methods approaches and often lack consistency in their application (Creswell and Plano Clark, 2006). In this regard, Greene et al. (1989) and Mark (1988) acknowledge that departures from recommended mixed-methods designs can be readily defended. In actual research practice scholars take very flexible approaches and allow the research purpose and RQs to guide their choices of data-collection methods and analysis techniques (Smaling, 1994; Tashakkori and Teddlie, 1998).

When developing the mixed-methods approach for this research study, the researcher acknowledged the relevance of several key principles highlighted in methodology literature. Methodologists like Creswell et al. (2003), Teddlie and Tashakkori (2009), Morse and Niehaus (2009), Bryman et al. (2008) and Greene et al. (1989) broadly agree on five fundamental determinants significant when deciding on and constructing the mixed-methods design, namely, (1) theoretical underpinning(s), (2) RQs and objective(s), (3) weighting/prioritisation of qualitative and/or quantitative strands, (4) timing of qualitative and quantitative strands, and (5) mixing of qualitative and quantitative strands. In the following sections, the researcher introduces these key determinants in the context of this research study and elaborates on the employed mixed-methods design.

Parker (2012, 2014b) and Parker and Roffey (1997) emphasise the close interplay between theoretical and methodological frameworks in academic research and claim that it is difficult to separate theory and method. In fact, the methodology applied plays a significant role as it offers several ways to contribute to theory; it can strengthen theoretical concepts, modify or extend them (Goulding and Lee, 2005). This research study intends to contribute to NIS and accountability dimensions. With regards to the theoretical contribution this study intends to make, it was noted that several accountability scholars encourage broader interpretive approaches to accountability research (e.g. Bovens et al., 2014; Brennan and Solomon, 2008; Parker, 2004, 2008; Solomon, 2007) arguing that methodologically accountability research must go beyond the primarily positivist views adopted by authors of previous studies (e.g. Kluvers, 2003; Kloo and Martin, 2001; Tippett and Kluvers, 2010). Unlike positivist researchers who examine their topics from a distance, interpretivist scholars embrace interaction and direct engagement with the individual or group and are curious about the actors’ world (Parker, 2008). An interpretive approach is arguably best suited to investigate, critique and illuminate accountability issues (Parker, 2012).

In his critique on the application of NIS, Suddaby (2010, p. 16) emphasises that by adopting purely positivist methods, which count rather than explain the outcomes of institutional
processes, previous institutional work has overlooked “everything that is interesting in the ‘institutional story’”. Following the author (p. 16), NIS

“has largely failed to retain methodologies that are consistent with their need to attend to meanings systems, symbols, myths and the processes by which organizations interpret their institutional environments”.

In the same vein, Meyer (2008), Hinings and Tolbert (2008), Lawrence et al. (2009) and Lawrence and Suddaby (2006) reason that because NIS emphasises causal structures rooted in culture and interpretation, research phenomena assessed through the lens of NIS need to be examined through qualitative methods that capture peoples’ perceptions and interpretations. Hence, methodologically, it is suggested to new institutionalists to move away from the application of strictly positivist methods and to begin incorporating interpretivist methods that pay attention to actors’ perceptions of institutions (Suddaby, 2010).

With respect to the topic under research, van Helden (2005), suggests a more eclectic research spectrum comprised of both qualitative and quantitative methods to obtain a more comprehensive and convincing picture of PA activities. By applying a mixed-method design, this research study follows scholars’ demand for more interpretive research in the fields of accountability and NIS and the call for a mix of qualitative and quantitative methods in NPM literature (Bryman, 2006a; Collis and Hussey, 2014; Greene et al., 1989). Both, qualitative and quantitative research elements offer a rich tapestry of different perspectives and help to unpack the complex phenomenon of PA work in Victoria.

As mentioned earlier, social science researchers commonly contend that it is important to ensure that mixed-methods studies are tailored to RQs (Bryman, 2006a; Graff, 2013). Tashakkori and Creswell (2007) propose that researchers should demonstrate the necessity for applying mixed-methods to answer RQs that include qualitative and quantitative components. In this study, RQs asking for “how?” (RQ1), “what?” (RQ2) and “to what extent?” (RQ3) justify the need for applying both qualitative and quantitative methods. The examination of the theoretical perspective and the RQs has informed the researcher’s choice of a sequential mixed-methods design most suitable for this study. Sequential mixed-methods studies presuppose that multiple data-collection, analysis, and inference approaches are employed in a sequence of phases (Tashakkori and Teddlie, 1998), and that results from one method help to develop and implement subsequent method(s) (Cameron, 2014; Onwuegbuzie and Johnson, 2006). For this study data was collected throughout the following three-phases sequential mixed-methods design:

1) In-depth analysis of publicly available documents (QUAL1),
2) online survey questionnaire exclusively sent to auditees (quan20), and
3) in-depth semi-structured interviews with auditees, MPs and journalists (QUAL2).

Morgan (1998) suggests that the weighting or prioritisation of methods (e.g. whether quantitative or qualitative methods dominate) used in mixed-methods studies should be based on the examination of which data collection method is best suited to address the study’s purpose. As the act of interpretation lies at the heart of this research and a predominantly interpretive paradigm is adopted, this study favours the priority of qualitative methods (Ahrens and Dent, 1998). The researcher draws on conclusions made by Weiss (1968, pp. 344-5) who

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20 The quantitative phase does not intend to generate statistical generalisations, but rather to prompt and inform in-depth interviews with key stakeholders. This will be explained in further detail in subsequent sections.
argues that “[q]ualitative data are apt to be superior to quantitative data in density of information, vividness, and clarity of meaning (…)”. The predominance of qualitative data-collection methods is considered a necessary condition for creating understanding of social constructs such as PA activities (Rowlands, 2005; Walsham, 2006). Following the mixed-methods research notation system developed by Morse (1991, 2003, 2010), the mixed methods design employed in this study is summarised as $QUAL1 \rightarrow quan \rightarrow QUAL2$, with the arrows ($\rightarrow$) indicating that the project is conducted sequentially$^{21}$, and the upper case indicating that the study is qualitatively-driven. All three different stages address all three RQs. The sequential design is illustrated in Figure 4.

Data was collected and analysed in a triangulation fashion (see section 5.3.3). Thereby, the researcher followed Creswell et al. (2004, p. 11), who argue that

“[a] typical structure for a triangulation study is to have separate sections on quantitative data collection and qualitative data collection, as well as separate sections on quantitative data analysis and qualitative data analysis. The investigators then provide a results, discussion, or conclusion section in which they discuss the results of both analyses.”

Bryman et al. (2008), and Morse and Niehaus (2009) underline the importance of mixing, the stage of the research process at which integration of the qualitative and quantitative data takes place. With regards to the mixing process, Teddlie and Tashakkori (2009) and Creswell and Plano Clark (2011) distinguish between inferences and meta-inferences, whereby they define inferences as conclusions drawn from the separate phases of the study and meta-inferences as interpretations drawn from across the qualitative and quantitative strands. In this research study, mixing is operationalised at the stages of data analysis, i.e. inference, and interpretation, i.e. meta-inference (Moran-Ellis et al., 2006; Morse and Niehaus, 2009). As Figure 4 depicts, each of the three phases ($QUAL1, quan$ and $QUAL2$) includes an inferential stage at which data is analysed within the parameters of the relevant paradigm to identify key topics and questions that require further exploration (Creswell and Plano Clark, 2011; Moran-Ellis et al., 2006). The subsequent analytical processes provided important information on emergent as well as surprising and unexpected topics and offered fresh insight (Creswell, 2006; Driscoll et al., 2007; Malina et al., 2011).

$\text{21}$ The sequence of the three phases is indicated by the blue arrows in Figure 4.
Figure 4: The sequential mixed-method design

**QUAL1**
- Document analysis
  - Collecting documents for QUAL1
  - Identifying samples for QUAN and QUAL2
  - Analysing QUAL1 data
  - Inferential stage QUAL1

**QUAN**
- Online survey questionnaire
  - Approaching QUAN sample
  - Collecting QUAN data
  - Analysing QUAN data
  - Inferential stage QUAN

**QUAL2**
- In-depth semi-structured interviews
  - Approaching sample for QUAL2
  - Collecting data for QUAL2
  - Analysing QUAL2 data
  - Inferential stage QUAL2

**Meta-inference drawn from all data sources:**
Triangulation of QUAL (1 and 2) and QUAN results

**Addressing RQs**
Sources: adapted from Teddlie and Tashakkori (2009); Greene et al. (1989); Creswell (2006); Creswell and Plano Clark (2011); Morse (2003, 2010)
Those findings then inform the subsequent phase. Here, the researcher mixes by using a “strategy of connecting” (Creswell and Plano Clark, 2011, p. 67), whereby the results of one phase built to the collection of the other type of data. Moran-Ellis et al. (2006) describe this process as following a thread. Thus, findings from phase QUAL1 informed and led to the development of the second phase, quan, where findings from QUAL1 were further explained. Thereafter, findings from the second inferential stage (findings from QUAL1 and quan) set out the basis for the final phase, QUAL2, which further explains or confirms findings from previous phases (Tashakkori and Teddlie, 2003; Teddlie and Tashakkori, 2009). This approach, which is effectively inductive in nature, is based on a sequential process of data examination that aims to interweave the findings emerging from each dataset. The value of this approach lies in allowing an inductive focus of the analysis, preserving the value of the qualitative exploratory inquiry while incorporating the specificity of the quantitative data (Moran-Ellis et al., 2006; Nastasi et al., 2010). However, the emphasis is on the interpretation stage, the meta-inference highlighted by the oval in Figure 4, where findings from qualitative and quantitative strands are gathered and converged in a triangulation fashion to draw “conclusions or inferences that reflect what was learned from the combination of results from the two strands of the study [...] by comparing and synthesizing the results in a discussion” (Creswell and Plano Clark, 2011, p. 67). Thus, final conclusions will be drawn based on all phases in pursuit of the aim of knowing more (Graff, 2013; Moran-Ellis et al. 2006). The following sub-sections introduce the three phases of the employed mixed-method approach, explain the processes used to gather the empirically-rich data of the study, outline how access was gained to study participants, and describe data analysis techniques.

5.2.1 Document analysis

The systematic review and analysis of relevant printed and electronic documentary sources is regarded as an essential first stage in this mixed-methods approach. Document analysis is of particular importance for this study as relevant PAs lie in the past and are no longer observable (Bowen, 2009; Corbin and Strauss, 2015; Strauss and Corbin, 1998).

5.2.1.1 Purpose of document analysis

Documents serve multiple purposes: they provide background detail on the institutional and accountability setting within which research participants operate (Atkinson and Coffey, 2004; Fowler and Cordon, 2015; O’Dwyer and Boomsma, 2015). Bearing witness to past events, documents further contain information on previous issues faced by stakeholder groups. Historical insight offered through the review and analysis of documents helped the researcher to understand the origin of issues faced by key stakeholders in the PA context and indicated the conditions and circumstances that impinge upon the phenomena under investigation (Bowen, 2009). In other words, documents are considered as “text providing context” (Bowen 2009, p. 29). This is particularly relevant as the analysis of documents relevant for this study captures the perspectives of performance auditors.

Following Charmaz (2014), documents do not only give an overview of the research setting, but also provide insights into the groups of people being studied. Printed and electronic documents allowed for the identification of PAs conducted within the relevant research period and further enabled the researcher to identify potential research participants who had experienced or had been involved in those PAs. Thirdly, according to Bowen (2009) and Yin (1994) documents track change and provide a clear picture of how an organisation developed over time. With relevance to RQ3, the researcher assessed and compared different documents (see section 5.2.1.2) with the intention to identify whether organisational changes have been made. This analytical process allowed for the evaluation and categorisation of auditees’
published responses and strategic reactions to PAs and provided impressions of whether PAs were perceived as useful, if implementation actions were undertaken by auditees, and if not, why not.

Data and information contained in relevant documents raised questions that could not have been answered through documents only. Notwithstanding the valuable use of document analysis for this study, the researcher acknowledges that documents should not be used as surrogate for other methods and follows Atkinson and Coffey (1997 p. 47) who emphasise that “we cannot treat records – however ‘official’ – as firm evidence of what they report.” Whereas in PA literature document analysis has been applied as a stand-alone method (see e.g. Alwardat and Benamraoui, 2014; Arthur et al., 2012; Grönlund et al., 2011), in this study, information obtained from documentary evidence has informed the survey questionnaire and interview guide and thereby complemented subsequent data-collection stages.

5.2.1.2 Relevant documents

As argued by Merriam (1988, p. 118) “[d]ocuments of all types can help the researcher uncover meaning, develop understanding, and discover insights relevant to the research problem”. Empirical data and information meaningful and relevant for this study was retrieved from sources listed in Table 6.

Table 6: Overview of relevant documents analysed

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>PA reports</td>
<td>26</td>
<td>30</td>
<td>29</td>
<td>28</td>
<td>29</td>
<td>25</td>
<td>29</td>
<td>196</td>
</tr>
<tr>
<td>Auditees’ responses to PA reports</td>
<td>n/a</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>n/a</td>
<td>n/a</td>
<td>5</td>
</tr>
<tr>
<td>AG reports to Parliament</td>
<td>n/a</td>
<td>1</td>
<td>n/a</td>
<td>1</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>2</td>
</tr>
<tr>
<td>Parliamentary and committee reports and pronouncements</td>
<td>n/a</td>
<td>2</td>
<td>2</td>
<td>n/a</td>
<td>n/a</td>
<td>2</td>
<td>n/a</td>
<td>6</td>
</tr>
<tr>
<td>PAEC Public hearing transcripts</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>42</td>
<td>n/a</td>
<td>n/a</td>
<td>42</td>
</tr>
<tr>
<td>Media reports and press releases</td>
<td>14</td>
<td>26</td>
<td>11</td>
<td>14</td>
<td>11</td>
<td>21</td>
<td>23</td>
<td>120</td>
</tr>
</tbody>
</table>

Given the relevant period under study, this thesis focuses on documents containing information and data regarding PAs conducted by VAGO within the financial years of 2009/2010 – 2015/2016.

5.2.1.3 Identifying research participants

One of the purposes of document analysis was the identification of potential research participants. Different kinds of documents were related to different key stakeholder groups, as illustrated by Table 7 below:

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22 All documents are accessible online through websites of VAGO (www.vago.vic.gov.au), the Parliament of Victoria (www.parliament.vic.gov.au and www.parliament.vic.gov.au/paec) and audited organisations. Media reports and press releases were obtained from (local) newspapers (online and print versions) such as “The Age”, “Herald Sun” and “The Guardian” to name only a few.
Table 7: Documents used to identify study participants

<table>
<thead>
<tr>
<th>Study participants (stakeholder group)</th>
<th>Document type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditees</td>
<td>PA reports, auditees’ published responses to PA reports, websites of public sector organisations</td>
</tr>
<tr>
<td>Members of Parliament</td>
<td>Parliamentary and committee reports and pronouncements, Victorian Parliament website, AG reports to Parliament, PAEC public hearing transcripts</td>
</tr>
<tr>
<td>Journalists</td>
<td>Media reports and press releases</td>
</tr>
</tbody>
</table>

As documents contain information on stakeholders involved in PAs, the researcher reasonably assumed that individuals representing key stakeholder groups mentioned in those documents were to a certain extent involved in relevant PAs. Identifying research participants based on their involvement in PAs through document analysis allowed the researcher to identify potential survey and interview participants. To identify potential auditees, in a first step PA reports were reviewed. Auditees’ responses to PA reports were examined when PA reports and/or organisations’ websites did not disclose auditees’ contacts. Whenever publicly available documents and websites did not disclose contact details of auditees involved in PAs, the organisations were contacted via phone and asked for the required information. Names and contact details of MPs were obtained from parliamentary and committee reports and pronouncements related to relevant PAs and the Victorian Parliament’s website. Journalists were identified through their published newspaper articles on VAGO PAs and topics related to those audits. Their contact details are published on local newspaper websites and could therefore easily be obtained. Through this process, 411 auditees, 17 MPs and 28 journalists were identified as potential participants.

5.2.2 Online survey questionnaire

At the second stage of data-collection an online survey questionnaire (hereinafter ‘survey’) was sent out. Following Collis and Hussey (2014), surveys can be divided into two types: they can either be descriptive or analytical. Analytical surveys intend to examine relationships between specific variables, whereas descriptive surveys are used in order to represent phenomena at a particular instance or at various instances (Collis and Hussey, 2009). The survey used in the current study is a descriptive one.

5.2.2.1 Purpose of the survey questionnaire

The survey sent exclusively to auditees allowed the researcher to reach the relatively large number of auditees geographically dispersed throughout Victoria (Bachmann et al., 1996; Fox et al., 2003; Taylor, 2000). The survey results should explain findings from document analysis and provide evidence of the impacts and accountability relationships identified by documents. Although the survey methodology contributed to greater confidence in auditees’ perceptions and interpretations, it cannot fully illuminate the reasons for auditees’ perspectives. Hence, many questions emerged from survey findings that could not be answered through the descriptive analysis of the quantitative data alone. That highlights the priority of qualitative methods for the purpose of this research (Christ, 2007). Nevertheless, the survey instrument was valuable in two respects: firstly, it helped to purposefully select auditees to be interviewed. Secondly, quantitative survey results provided the initial scoping and foundation for in-depth semi-structured interviews. Based on the survey (and document analysis) results as well as relevant literature, interview questions for auditees, MPs and journalists were designed that
allowed for greater variety of topics to be addressed in more depth than was possible in the survey (Bryman, 2006b; Bryman et al., 2008).

5.2.2.2 Group of survey participants

Based on the preceding document analysis, 411 auditees were identified as potential survey participants. The other relevant stakeholder groups (MPs, performance auditors and journalists) are smaller in size. Thus, the researcher considered obtaining their perceptions and interpretations from interviews and documents as more sensible. As auditees represent a variety of public sector organisations including state government departments, independent budget sector agencies, public bodies, local government councils, water corporations and health services (VAGO, 2017a), diversity has been ensured through the mix of organisations included in the selected group.

5.2.2.3 Constructing the survey questionnaire

The survey was constructed with the help of the online survey tool Qualtrics. Questions included in the survey were informed by relevant PA literature (e.g. Desmedt et al., 2017; Morin, 2004, 2014; Parker and Jacobs, 2015; Raudla et al., 2015; Reichborn-Kjennerud and Johnsen, 2018), accountability literature (e.g. Kloot and Martin, 2001; Luke, 2010; Mulgan, 1997; Parker and Gould, 1999; Sinclair, 1995) and NIS literature (e.g. Boxenbaum and Jonsson, 2008; Brignall and Modell, 2000; Burns and Scapens, 2000) as well as findings from document analysis. The questionnaire was further influenced by survey instruments developed by Morin (2001, 2004, 2014), Raudla et al. (2015), Reichborn-Kjennerud (2015) and Reichborn-Kjennerud and Johnsen (2018). Survey questions were grouped into seven relevant sections arranged in the following order (see Appendix 2): (1) demographic data and professional background, (2) contribution of PAs, (3) PA impacts, (4) PAs and the media, (5) PAs and the parliament, (6) accountability, and (7) your overall view on the PAs in your organisation. The survey questions address all three RQs.

Response categories were primarily closed-ended and employed a Likert scale format, checklist response format as well as rankings (de Vaus, 2002). For 12 survey questions, a five-category Likert scale was selected offering five response alternatives ranging from very positive to very negative attitudes (Zikmund et al., 2010). The option “neither agree not disagree” was included to give auditees with limited PA experience the option to provide neutral responses. If these auditees were forced to choose between agreeing and disagreeing, their responses could have skewed the overall results and distorted survey findings. Lietz (2010) argues that including a middle option allowing participants not to commit to a clear direction slightly increases the validity and reliability of a response scale. Studies conducted by Kalton et al. (1980), and Schumann and Presser (1996) demonstrate that providing a middle option attracts between six and 23% of survey respondents.

To enable the five-category Likert scale to be utilised, statements, rather than questions were formulated (Allen and Seaman, 2007; Bryman, 2004). Using a checklist format, the survey aimed to show the kinds of PAs in which auditees were involved and helped the researcher to explore the different kinds of changes auditees experienced. Further, by employing a rankings format, the researcher intended to demonstrate how different accountability relationships are weighted according to their relevance. The survey concludes with an open-ended question in text field form, which provided auditees with the opportunity to express their views, experience and ideas (Bryman et al., 2008). Although participants completed the survey anonymously, those willing to participate in follow-up interviews were asked to provide their email addresses.
5.2.2.4 Pilot-Testing, administration and timing of the survey questionnaire

Once the survey was developed, the draft version was subjected to pilot-testing. For this purpose the survey was sent to RMIT University School of Accounting staff who independently from the supervisor team reviewed survey questions. This resulted in minor alterations to wording in some statements. Thereafter, a second round of pilot testing was undertaken with the assistance of a public sector authority in Germany, where the survey was reviewed by three experienced performance auditors in middle and top manager positions. Comments and feedback from those reviewers were taken into consideration and survey questions were modified accordingly. The results of the pilot tests enhanced the researcher’s confidence that survey questions were likely to be understood by auditees. On 11 October 2016, the researcher obtained ethical approval from the RMIT Ethics Committee for the conduct of the survey.23

Over a period of 4 weeks – end of October until end of November – the survey was sent to 411 auditees via email. This time frame was chosen to avoid overlap with surveys periodically sent to audited organisations by VAGO.24 The independent online survey was active for a total of 4 months (end of October 2017 until end of February 2018) during which time auditees were sent friendly reminders to participate in the survey. In accordance with Muñoz-Leiva et al. (2009) who suggest a maximum of three or four reminders, the researcher reminded auditees every three to four weeks, and therefore sent out a total of three reminders.

5.2.2.5 Participant response rate

A total of 82 out of 411 (20%) auditees responded to the survey. While 67 (16.30%) completed the survey in full, 15 (3.70%) participants only partially completed the survey. Compared to participant response rates of previous impact studies, the response rate of 20% is relatively low. For example, in the Canadian context, Morin (2004, 2008) generated response rates of 53% and 70%, respectively, Raudla et al. (2015) received responses from 30% of targeted auditees in Estonia, and in Reichborn-Kjennerud’s (2013a, 2015) studies 74% of Norwegian auditees completed the survey.

With respect to the higher response rates received by other researchers, it needs to be emphasised that those authors followed different strategies to identify and approach survey participants: while Morin (2008, 2014) and Reichborn-Kjennerud (2013a, 2015) made contact with relevant representatives of audited organisations asking for the identification of potential survey participants before sending their surveys, in this study, the researcher directly contacted auditees who were according to documents involved in relevant PAs. This approach was considered appropriate for the following reasons: approaching the highest administrative authorities of audited organisations in the same fashion as aforementioned authors, would have created the risk of auditees providing biased opinions, which would have affected the quality of survey responses. Additionally, the researcher would have run the risk of entire public sector organisations declining participation. In this research study, auditees who were contacted as potential survey participants were encouraged to provide their own views, perceptions and interpretations based on their individual involvement and experience in PAs. Survey invitation emails clarified that in this research study auditees are not considered as representatives of their

23 Ethics approval (project number): 20432.

24 In order to receive feedback for their PA work, VAGO regularly sends surveys to audited organisations.
organisations but as individuals who have been involved in and experienced PAs within the relevant period under study.

The 20% response rate may have been influenced by the approach taken to identify and approach survey targets, but might also be due to such factors as high employee turnover, auditees’ extensive workload (Raudla et al., 2015), inevitable loss of organisational memory (Morin, 2014), or any discouragement from participating by the top management of respective audited organisations. The latter was experienced by Morin (2014) who was given various reasons by audited organisations for non-participation: budget constraints preventing organisations from participating in the survey, and the obligation for public servants to abstain from commenting on government actions and violations of ethical policies.

The item non-response mentioned above, i.e. missing values among respondents’ answers, was overcome through the application of imputation techniques (Little, 1993; Little and Rubin, 2002; Rubin, 2004), whereby missing values are replaced with plausible estimates that artificially complete the data set (de Leeuw et al., 2003; Rässler and Riphahn, 2006). The researcher applied mean imputation, which fills missing responses through the use of respective mean values (Rässler, 2004). Given that the quantitative component of the mixed-methods approach employed is subordinate to qualitative data, the low participant response rate and the occurrence of item non-responses do not constitute major drawbacks of this study.

5.2.2.6 Demographic survey data

In this section the researcher provides insights into demographic data of survey respondents illustrated in Tables 8 to 11. As outlined in section 5.2.2.5, a total of 82 out of 411 (20%) auditees responded to the survey. Respondents represent state government departments (45.1%), local government councils (48.8%), and other public bodies and independent budget sector agencies (6.1%).

Table 8: Demographic data of survey respondents: current area of employment

<table>
<thead>
<tr>
<th>Current area of employment</th>
<th>In %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and Training</td>
<td>3.7</td>
</tr>
<tr>
<td>Justice and Regulation</td>
<td>4.9</td>
</tr>
<tr>
<td>Treasury and Finance</td>
<td>4.9</td>
</tr>
<tr>
<td>Health and Human Services</td>
<td>6.1</td>
</tr>
<tr>
<td>Economic Development, Jobs, Transport and Resources</td>
<td>8.5</td>
</tr>
<tr>
<td>Environment, Land, Water and Planning</td>
<td>8.5</td>
</tr>
<tr>
<td>Premier and Cabinet</td>
<td>8.5</td>
</tr>
<tr>
<td>Local Government</td>
<td>48.8</td>
</tr>
<tr>
<td>Other (e.g. public bodies, independent budget sector agencies)</td>
<td>6.1</td>
</tr>
</tbody>
</table>

Most respondents (80.5%) hold top management positions as illustrated in Table 9.

Table 9: Position of survey respondents

<table>
<thead>
<tr>
<th>Current position</th>
<th>In %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top/senior management</td>
<td>80.5</td>
</tr>
<tr>
<td>Middle management</td>
<td>14.6</td>
</tr>
</tbody>
</table>
As Table 10 shows, 25% of respondents were involved in more than 20 PAs. A total of 71.5% experienced between one and 20 PAs and 3.5% responded that they had not been involved in any PA. With regards to the latter, it must be noted that participants who selected 0 are Committee Members and a Chairperson, who clarified in the survey comment section and in interviews that they are not directly involved in the PA process but oversee and monitor organisations’ implementation actions of recommendations.

Table 10: Number of PAs participants were involved in

<table>
<thead>
<tr>
<th>Number of PAs</th>
<th>Number of auditees (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 20</td>
<td>25</td>
</tr>
<tr>
<td>15–20</td>
<td>22</td>
</tr>
<tr>
<td>10–14</td>
<td>18</td>
</tr>
<tr>
<td>5–9</td>
<td>14.5</td>
</tr>
<tr>
<td>1–4</td>
<td>17</td>
</tr>
<tr>
<td>0</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Following Table 11, 43% of PAs auditees were involved in were audits of particular public sector programs, 34% were system audits and 21% were audits of individual public sector organisations. In the open-ended survey question auditees defined “other” types of PAs as “performance audits of common functions across different organisations”.

Table 11: The kind of PAs participants have been involved in

<table>
<thead>
<tr>
<th>Kind of PA</th>
<th>Number of auditees (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA of the entire organisation</td>
<td>21</td>
</tr>
<tr>
<td>PA of a particular system</td>
<td>34</td>
</tr>
<tr>
<td>PA of a particular program</td>
<td>43</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
</tr>
</tbody>
</table>

In Chapters 6, 7, 8 and 9, survey results on the five-point Likert scale are presented in tables. The analysis of survey responses is not sequenced in the same order in that questions appeared in the survey questionnaire (see Appendix 2). Results of survey responses show the questions/statements together with the percentage of auditees (strongly) agreeing, neither agreeing nor disagreeing, or (strongly) disagreeing. In order to give greater insights into the reasons for auditees’ choices of survey responses, verbatim statements that emerged from interviews are provided (Hasan et. al., 2013).

5.2.3 In-depth semi-structured interviews

Extensively used in relevant accountability and PA research (e.g. Funnell and Wade, 2012; Luke, 2010; Parker and Jacobs, 2015; Parker et al., 2018; Sinclair, 1995), in-depth semi-structured interviews are considered the most significant data-collection tool for in-depth research projects such as this study. The research objective was to explore key stakeholders’ perceptions of accountability relationships to other groups and their interpretations of the nature and scope of PA impacts. As such, in this study it was vital that perceptions, opinions and views of research participants were heard. Without interviewing auditees, MPs and journalists, the researcher’s insights into the researched phenomena would have been severely
restricted (Kvale and Brinkmann, 2008; Parker, 2008; Rowlands, 2005;Walsham, 2006). In-depth semi-structured interviews provided extensive in-depth insights by exploring what happened and how it happened (Parker, 2012; Tanggaard, 2009) and helped the researcher “to understand themes of the daily world from the subject’s own perspective” (Kvale and Brinkmann, 2008, p. 24).

5.2.3.1 Purpose of in-depth semi-structured interviews

Minichiello (1990) considers in-depth interviews as conversations with purpose. Conducted between researcher and interviewee, in-depth interviews allow the researcher to break open areas of reality that would otherwise have remained inaccessible such as a subjective perceptions and experiences of people (Peräkylä and Ruusuvuori, 2011). Through qualitative in-depth interviews, participants are given voice to freely talk about their points of view in their own words and to highlight what they feel is relevant with respect to the research phenomenon (Horton et al., 2004; Kvale, 2006; Parker, 2012).

Qualitativemethodologists have introduced many different kinds of in-depth interviews offering a multitude of styles of questioning, each appropriate in different circumstances (Alvesson, 2003; Leech, 2002). Between the continuum end points of structured interviews, which employ a standardised question set summarised in a detailed pre-planned interview scheduled that is strictly followed in each interview, and unstructured interviews that employ no formal interview schedule or question order and, therefore, are really more free-flowing conversations rather than interviews, lies the intermediate space of in-depth semi-structured interviews (Alvesson and Deetz, 2000; Fontana and Frey, 2000; Parker, 2014b; Qu and Dumay, 2011). In-depth semi-structured interviews offer a balance between structured interviews that restrict respondents’ replies and unstructured interviews that often tend to divert from the research objective (Horton et al., 2004; Patton, 2002).

For this research study, in-depth semi-structured interviews supplemented by open-ended questions were the most effective and convenient means of gathering information as they provided flexibility for the interviewer in her depth of exploration (Aberbach and Rockman, 2002; Flick, 2002; Kvale and Brinkmann, 2008), enabled the interviewee to talk freely, yet restricted the conversation to topics relevant to RQs, and disclosed significant and often hidden facets of participant behaviour (Qu and Dumay, 2011). As Turner (2010) asserts, the semi-structured interview provides more focus compared to a conversational approach, but still allows for a degree of flexibility in obtaining relevant information from interviewees. In fact, in this study interviewees were able to expand upon topics they considered as relevant and thereby allowed the researcher to discover themes that were unknown by probing interesting comments that arose during the interview (Frankfort-Nachmis and Nachmias, 1992; Rubin and Rubin, 2012; Shank, 2006). Conducted in-depth semi-structured interviews also had the benefit of generating more comparable responses than unstructured interviews would have provided, while retaining natural spontaneity where important topics were discovered (Maxfield and Babbie, 2017).

Most importantly, in-depth semi-structured interviews enabled interviewees to respond in the way that they think and use language (Qu and Dumay, 2011). The researcher was able to enter the interviewees’ world (Schwartzmann, 1993), better see situations through the eyes of her counterparts (Parker, 2012), explore their perspectives and understand how they perceive accountability relationships and what they regard as PA impacts. Not only interviewees’ perceptions and interpretations but also social cues such as voice, intonation and body language through which they expressed their views provided empirical material of this academic work (Irvine et al., 2012; Opdenakker, 2006).
Semi-structured interviews did not only allow for a variety of topics and issues to be explored in greater depth than was possible in the initial survey, but also clarified the meanings auditees attributed to topics in survey questions by providing additional in-depth data, thereby leading to an enhancement of survey findings (Bryman, 2006b; Walsham, 2006). Also, semi-structured interviews generated a representative sample of verbatim comments that are used as illustrative quotations supporting research results (Arber, 1993).

5.2.3.2 Selection of interviewees

Between April and August 2017, interviews with thirty-four auditees, five MPs and three journalists who agreed to participate in this study were conducted. These numbers are consistent with previous studies conducted by, for instance, Morin (2001) who held 41 interviews with auditees and two with parliamentarians, Reichborn-Kjennerud (2014b) who interviewed four parliamentarians, and Schwartz (2000) who held 39 interviews with auditees. In the context of a predominantly qualitative study, conducting the number of interviews as reported above for this study is entirely appropriate to the focus on understanding how and why (Collis and Hussey, 2014).

Interviews with auditees were held with a selection of those who responded to the survey and agreed to be interviewed (Bryman et al., 2008; Teddlie and Yu, 2007). In selecting auditees, the aim was to choose auditees of different public sector organisations in order to obtain an indication of perceptions and interpretations from different perspectives. As outlined earlier, MPs and journalists were identified through document analysis. All potential participants were sent interview invitations via email.

By applying the purposive technique of snowball sampling (Miles et al., 2014), the researcher took advantage of using the networks of auditees, MPs and journalists. Their circles of acquaintance provided a set of contacts that the researcher otherwise would have been unable to reach (Berg, 1988; Spreen, 1992). At the end of each interview, auditees, MPs and journalists were asked if they knew of someone from their professional peers who was involved in relevant PAs and might be interested in participating in interviews. The majority of interviewees claimed that they themselves were the main person of contact for issues related to PAs. That confirmed the researcher in her participant identification and selection strategies. Nevertheless, seven auditees and one MP referred to colleagues who were then invited via email and agreed to be interviewed. As the current study places the emphasis on quality rather than quantity, the researcher’s objective in employing the snowball sampling technique was to become saturated with information on the topic rather than maximising interviewee numbers beyond the saturation point (Bowen, 2008; Padgett, 1998). The snowball sampling technique particularly assisted the researcher to overcome the problem associated with selecting a concealed population (Faugier and Sargeant, 1997). Stakeholders who changed positions, locations or professions could be identified through this approach. For example, one interviewed auditee contacted his former colleague who had experienced multiple PAs but had moved to another state. This auditee was willing to share his views and perceptions in an interview held via Skype. Snowball sampling proved to be the most suitable method for obtaining respondents given that they were relatively few in number (Biernacki and Waldorf, 1981; Teddlie and Yu, 2007).

5.2.3.3 Development of the interview guide

With the dual aim of minimising researcher bias through pre-specification of non-directive questions and to ensure that conversations are directed towards the topics and issues relevant for this research study (Brenner, 1985; Lillis, 1999), interview guides were developed and used during the in-depth semi-structured interviews with auditees, MPs and journalists. As the
Interview guides had to be adjusted to the respective stakeholder group (auditees, MPs, journalists), interview questions for each group differed slightly with respect to the participants’ roles (see Appendix 3). Nevertheless, by covering the same topics the researcher ensured that the same thematic information were collected from each interviewee (Gall et al., 2003; Lillis, 1999; Parker, 2004; Qu and Dumay, 2011). Thereby the researcher enhanced the comparability of the data collected across interviews (Flick, 2002).

In order to elicit full and undirected responses from interviewees, the interview guide was designed to be used in a flexible manner instead of following a stringent order (Kvale and Brinkmann, 2008; Lillis, 1999; Qu and Dumay, 2011). However, to build rapport with interviewees, the researcher structured the interview guide in a way that she moved from asking non-threatening questions to potentially more sensitive questions (King and Horrocks, 2010; Leech, 2002; Lindlof and Taylor, 2011).

Information from the relevant PA, accountability and NIS literatures as well as findings from prior data-collection phases, i.e. document analysis and survey, was compiled into a set of semi-structured open-ended interview questions that reflect the intent of RQs (Christ, 2007). Interview questions were related to four main areas: (1) usefulness of PAs, (2) PA impacts, (3) changes made to audited organisations, and (4) accountability relationships (see Appendix 3). Each area contained a series of general questions, which were followed up by probe questions when necessary. Probes, defined as “requests for more explanation, clarification, description and evaluation” (Glesne, 2006, p. 96) were used to keep the research objective in focus and to guide the length of answers and details provided by interviewees (Rubin and Rubin, 2012). Based on interviewees’ responses, interviews were interposed with scheduled and unscheduled probe questions to elicit more elaborate responses (Maxfield and Babbie, 2017; Qu and Dumay, 2011; Turner, 2010). While scheduled probes such as “Can you provide an example?” or “What are your suggestions?” were formally included in the interview guide, unscheduled probes were not scripted but asked spontaneously when the researcher discovered an emerging topic emphasised by the interviewee (Leech, 2002; McCracken, 1988).

Prior to conducting interviews, the interview guide was reviewed by several academics from the RMIT School of Accounting. Based on their feedback interview guides were modified accordingly. As interviews progressed, interview questions were further refined. This process is outlined in more detail in the subsequent section.

5.2.3.4 Interview process: administration, conduct and timing of interviews

The process by which interviews with auditees, MPs and journalists were arranged and scheduled was as follows: each participant was sent a personalised invitation email with the attached consent form. Included in the invitation email was a list of potential interview questions to provide indications of the kinds of matters the study intends to explore. Participants could verify the interviewer’s research interest from her LinkedIn profile, which the researcher referred to in the invitation email. By presenting her LinkedIn profile the researcher intended to build rapport with interviewees (Qu and Dumay, 2011). That was considered an important step to be granted access by interviewees (Kvale, 2006).

Both emails and telephone calls were used to schedule interview appointments. Participants were given the opportunity to decide on the time and location most convenient for them to be interviewed. A period between April and August 2017 was devoted to conducting interviews with auditees, MPs and journalists. All forty-two interviews were carried out by the researcher. Appendix 4 lists interviews in chronological order and shows interviewees’ code numbers that they were provided with due to confidentiality agreements. The average duration of interviews was 47:30 minutes. Most interviews were held at the “scene of the action” (Parker, 2008, p.
participants’ offices, where the interviewer was able to gain insights into participants’ everyday activities and understanding from an inside perspective. Some interviews were conducted at RMIT University as a few interviewees contended that they could have a more free-flowing conversation outside their office. Conducting interviews at venues where participants felt most comfortable enhanced the likelihood of participants providing richer responses (Kvale and Brinkmann, 2008; Patton, 2002). Due to geographical dispersion of interviewees, some interviews had to be carried out via telephone and Skype. Meeting interviewees in person produced several advantages. Shuy (2003, p. 179) contends that

“face-to-face interaction compels more small talk, politeness routines, joking, nonverbal communication, and asides in which people can more fully express their humanity.”

The researcher carefully planned each interview to ensure that valuable interview time would not be wasted asking questions that documentary sources could answer (Ahrens and Dent, 1998). To make sure that the right people were asked the right questions, the pre-planning phase involved compiling profiles for each individual interviewee including information and data about interviewees’ professional background and current position (Qu and Dumay, 2011). That information was retrieved from online sources such as relevant websites25 and participants’ LinkedIn profiles.

Prior to the commencement of each interview the researcher obtained the signed consent form from interviewees who confirmed their voluntary participation and allowed for the interview conversation to be audio-transcribed. To gain rapport with interviewees and to make them feel at ease the researcher briefly explained contents, intentions and objectives of the research project (Kvale, 2006). Thereby, she reminded interviewees that their responses are kept confidential, that they may withdraw their consent at any time and may refuse to answer questions. Interviewees were further asked whether they had any questions before commencing the interview (Leech, 2002).

The researcher followed the proposition made by various academics, that the best question to begin a semi-structured interview is to ask the participant a grand tour question (Spradley, 1979). Like the term suggests, this type of question asks interviewees “to give a verbal tour of something they know well” (Leech, 2002, p. 667). Therein lays the advantage for the researcher to encourage interviewees to talk about and explain their experiences and views in a fairly focused way (Leech, 2002). In the current study a specific grand tour question was used to begin the interview, asking participants about their general involvement (auditees and MPs) or interest (journalists) in PAs. As most of the interviewees’ responses to this question were very detailed, their answers rendered many of the subsequent interview questions virtually unnecessary (Bailey, 2007). However, subsequent questions helped the researcher to go into further detail and to ask interviewees about specific topics and issues they emphasised when responding to the grand tour question.

At the end of each interview, participants were asked whether they would like to share any comments or add anything they consider relevant (King and Horrocks, 2010). Thereupon, some interviewees raised topics and issues that had not been addressed by the researcher. Those topics were then integrated into the interview guide and mentioned to participants in subsequent interviews. After several interviews have been conducted, unexpected issues

25 Public sector organisations’ websites (auditees), the Victorian Parliament website (MPs), and online versions of The Age and Herald Sun (journalists).
emerged that were not covered in prior interviews. When that was the case, the researcher followed-up on previously conducted interviews, either face-to-face or via telephone, depending on the interviewees’ availability (Fontana and Frey, 2000).

All interviews (face-to-face, telephone and Skype) were transcribed. Thereupon, unedited transcripts were returned to interviewees for review. Although interviewees were given the opportunity to make amendments to transcripts, only few made slight modifications that clarified the message they intended to express without changing the content. Overall, with respect to the interest shown by participants, the researchers’ experience in the interviews was highly positive. Most interviewees offered to provide further information to the researcher if required.

5.3 Data analysis: qualitative and quantitative analysis techniques

In this research study qualitative and quantitative data is analysed in a ‘development fashion’ (Caracelli and Greene, 1993; Rossman and Wilson, 1985), which constitutes an appropriate analysis technique when the design of the mixed-methods approach is sequential. How data was analysed in a sequential order with a qualitative document analysis preceding the quantitative survey analysis followed by the qualitative interview analysis (QUAL1 → quan → QUAL2), is outlined below.

5.3.1 Analysis of qualitative data

The process of qualitative data analysis required several steps: organising data, conducting a preliminary read-through of data, coding data and organising categories, interpreting and, finally, representing data (Bowen, 2009; Corbin and Strauss, 2008; Creswell, 2003, 2013; Rapley, 2007). These steps are interconnected and form a spiral of analytical procedures. Following Creswell’s (2013) spiral approach to data analysis, the researcher engaged in the process of moving in analytic circles, entering with text data and exiting with an account or narrative that added to the development of a conceptual map that captures the perceptions and interpretations of research participants. Qualitative data obtained from document analysis, the open-ended survey questions, and in-depth semi-structured interviews were analysed, assessed and interpreted in the same fashion.

5.3.1.1 Managing and organising qualitative data

Once data from documents, the open-ended survey question and interviews was collected, it was stored and organised in the data analysis software NVivo (Denzin and Lincoln, 2008; Miles et al., 2014; Richards and Morse, 2013; Silverman, 2013). The electronic storage of documents, responses to the open-ended survey question, and interview transcripts allowed ready access to verbatim statements which potentially provide empirical support for the conceptualisation of stakeholders’ perceptions and interpretations. With the help of NVivo, themes and issues emerged more freely without the compulsion to force data into previously established categories (Buchanan and Jones, 2010).

5.3.1.2 Reading and analytical memo writing

Following the organisation of the qualitative data in NVivo, the researcher adopted the approach suggested by Agar (1980), who advises academics to read interview transcripts in their entirety several times to immerse themselves in the details and to get a sense of the data-set as a whole before breaking it down analytically. In the initial process of exploring the data through careful reading and re-reading the researcher carefully scrutinised documents, responses to the open-ended survey question, and interview transcripts and applied analytical memo writing that helped to establish an intense relationship with the data, to develop a
heightened sensitivity to the meanings contained therein, and to refine and keep track of her ideas during the analysis process (Birks et al., 2008; Corbin and Strauss, 1990; Saldana, 2016).

Analytic memos took the form of short phrases, mind maps, flow charts or coding summaries (Creswell, 2013). They are comparable to researchers’ journal entries, written continuously throughout the research process including data collection and analysis stages (Saldana, 2016; Parker and Roffey, 1997). Memos created the intellectual workplace, where the researcher engaged with data, reflected data critically, challenged her own assumptions and recognised the extent to which ideas, thoughts and decisions shaped what was being seen (Mason, 2002; Thornberg and Charmaz, 2014). Memos documented by the researcher reflected emergent patterns, categories and sub-categories, the coding process and code choices. Dating each analytical memo helped the researcher to keep track of the evolution of the analysis and coding process. It is important to note here that analytical memos are different from field notes (Saldana, 2016). Field notes taken for the purpose of this research are the researcher’s written documentation that captures the different contexts, behaviours and language observed during the researcher’s interaction with interview participants (Ryan and Bernard, 2000).

5.3.1.3 Classifying data into codes and categories

Once the researcher carefully familiarised herself with the qualitative data it was analysed through coding techniques, whereby the opportunity was taken to deeply reflect on the contents of the data (Saldana, 2016). While this thesis does not seek to develop theory using Grounded Theory, the coding technique borrowed for this research, i.e. Strauss and Corbin’s (1998) three-stage approach of open, axial and selective coding provides valuable tools to the researcher to make sense of the wealth of information gathered through documents, the open-ended survey question and interviews and to arrive at systematically derived core categories that contribute to the conceptual map. These techniques have extensively been used by scholars like Roberts et al. (2005) and Parker (2001, 2007) who analysed interview transcripts through coding without the intention to develop theory.

In the process of the initial cycle of coding, open coding (Saldana, 2016), the large mass of data was reduced into preliminary codes and concepts pertinent to different phenomena were uncovered and assigned (Bowen, 2008; Corbin and Strauss, 1990; Strauss, 1987). At this stage the first provisional codes of data deriving from documents, the open-ended survey question and interview transcripts as well as from the researcher’s own professional and academic knowledge, emerged (Parker and Roffey, 1997). During the open coding process the researcher followed a detailed line-by-line approach recommended by Charmaz (2014). This iterative approach of going back and forth, re-reading and fracturing the data promoted a more objective and trustworthy data analysis and helped the researcher to break through bias by reducing the opportunity to impose her own perceptions and motives on the data (Bowen, 2009; Corbin and Strauss, 1990). Through line-by-line coding, the researcher identified similarities and differences as well as general patterns. Patterns, as indicators for peoples’ ways of working, living and thinking, are of great significance as they provide insights into stakeholders’ “five R’s: routines, rituals, rules, roles, and relationships” (Saldana, 2016, p. 6) that play an important role with regards to the objective of this research study.

In a back-and-forth interplay across qualitative data, the researcher identified direct and indirect references to PA impacts, accountability relationships and NIS concepts, which were scrutinised, coded and organised into concepts that seemed to cluster together (Bowen, 2008). In this manner “conceptually similar events/actions/interactions are grouped together to form categories and subcategories” (Corbin and Strauss, 1990, p. 12), which offer the researcher analytic leads for further exploration and help to see the direction in which to take the study (Glaser, 1978). In the same fashion as Bowen (2008, p. 144), the researcher compared
interview transcripts with documents and the open-ended survey question by asking “[h]ow is this text similar to, or different from, the preceding text?”

Whenever new data suggested new categories during the coding cycles, previously scanned documents, survey comments and interview transcripts were re-analysed to determine the presence of such categories (Bowen, 2008). As emphasised by Guest (2006), the development of codes/categories is a dynamic process subject to changes or refinement throughout the data collection and analysis process. The researcher therefore kept a record of defined codes and modified versions. The open coding cycle produced an initial listing of 47 codes, after codes supported by only few facts and memos have been deleted due to lacking supportive evidence. These numbers are similar to those of other researchers who acknowledge that a multiplicity of codes is likely to emerge from the first coding stage (Parker and Roffey, 1997; Glaser and Strauss, 1967; Strauss and Corbin, 1998). These codes formed the bases for the aggregation into core codes at the axial coding stage.

**Axial coding** was the second cycle coding method applied (Saldaña, 2016), which helped the researcher to recombine the data around the axes of core codes (Parker and Roffey, 1997). Axial coding filtered out dominant open codes from less important ones and identified relationships between those codes (Boeije, 2010). In this way, dimensions of core codes began to take shape emerging as aggregates of the most closely interrelated open codes for which supporting evidence was strong (Strauss, 1987; Strauss and Corbin, 1998; Bowen, 2009; Corbin and Strauss, 1990; Parker and Roffey, 1997). This process entailed the transition from a descriptive to an interpretative mode (Bowen, 2008). According to Strauss and Corbin (1998, p. 136), the ultimate goal of axial coding is achieved “when no new information seems to emerge during coding (…)”. The axial coding produced a number of core codes that were then constituted into the conceptual map after being integrated into the focal core code emerging from the final coding cycle, selective coding (Parker and Roffey, 1997; Creswell and Poth, 2018).

‘**Selective coding**’ (Saldaña, 2016) constitutes the process that puts “analytic meat” on the “analytic bones” (Strauss, 1987, p. 245). Here, the most significant focal core code, that is, the central phenomenon that emerged from the process of axial coding, is selected (Guest et al., 2012; Parker and Roffey, 1997). The identified focal core code forms the umbrella covering core codes formulated previously (Corbin and Strauss, 2015; Fereday and Muir-Cochrane, 2006; Stern and Porr, 2011; Parker and Roffey, 1997). In other words, all core codes that emerged from axial coding must be related to the focal core code either directly or indirectly (Parker and Roffey, 1997). It is the selective coding stage that condenses “all the products of analysis […] into a few words that seem to explain what ‘this research is all about’” (Strauss and Corbin, 1998, p. 146). The identified focal core code and conditioning or influencing core codes enabled the researcher to develop a conceptual map that shows the posited relationships between focal core code and core codes and their moderating or facilitating factors (Parker and Roffey, 1997; Strauss and Corbin, 1998). The conceptual map developed for this research study takes the form of a conceptual map that visualises relationships between various codes emerging from the data. The conceptual map allows the researcher to make codes and their relationships more salient by providing a body of knowledge in illustrative form (Wheeldon and Faubert, 2009). During the writing process, core codes were constantly reviewed, compared with codes identified at earlier coding stages and reassessed when necessary. Hence, the development of the conceptual map was a comparative, iterative and reflective process.

With respect to the coding process, one issue that needs to be addressed is that of predefined or ‘a priori codes’ that have been used in this research (Crabtree and Miller, 1999; Creswell, 2003; Creswell and Poth, 2018). As the mixed methods are embedded in a sequential model
with the document analysis preceding the survey and survey results forming the basis for the in-depth semi-structured interviews, codes that emerged from document analysis and open-ended survey question have influenced coding processes at the interview stage. However, following Creswell and Poth (2018) the researcher was open to additional codes emerging during data analysis. Hence, pre-defined codes guided but did not confine the analysis of interview transcripts (Boyatzis, 1998; Fereday and Muir-Cochrane, 2006). As the researcher was the only person coding the data, one limitation that emerged is that perspectives from a variety of people with differing expertise were not taken into consideration during coding cycles. However, to minimise researcher bias, identified codes were discussed with the supervisor team (Fereday and Muir-Cochrane, 2006).

5.3.2 Analysis of quantitative data using descriptive statistics

Once quantitative data was obtained from the survey the researcher organised the data in the statistical analysis software SPSS. Descriptive statistics referred to by Onwuegbuzie and Combs (2010) as exploratory-based statistics employ techniques helpful to organise and summarise quantitative data for the purpose of enhancing understanding of the research phenomenon. The statistical concepts used for the evaluation of survey responses were limited to simple but powerful descriptive statistics that summarise data in an understandable manner and help the researcher to describe and compare findings (Zikmund et al., 2010; Collis and Hussey, 2014; Saunders et al., 2009). With the help of SPSS quantitative measures such as means, percentage distributions, and standard deviation were calculated and visualised (see Chapter 6, 7, 8 and 9).

5.3.3 Triangulation of qualitative and quantitative results

The concept of triangulation has been comprehensively debated by accounting scholars and a number of calls has been made in support of the use of triangulation in accounting research (e.g. Ferreira and Merchant, 1992; Modell, 2005, 2009; Shields, 1997). Solomon and Trotman (2003), for example, strongly believe that the triangulation of different data-collection methods is essential to make progress in auditing research. While the purpose of triangulation is often equated with the premises of mixed-methods research it is important to underline the integrative element of the triangulation technique employed by this study (Erzberger and Kelle, 2003; Moran-Ellis et al., 2006).

Triangulation of qualitative and quantitative data provided the author of this study with several important opportunities (Jick, 1979): first, the effectiveness of the triangulation of document, survey and interview data was based on the premise that weaknesses of each data collection method can be compensated by the counter-balancing strength of the other methods (Sandelowski, 2000). Triangulation further provided a confluence of evidence and enabled the researcher to cross-validate results from all three data sets, thus, is likely to make findings more credible (Eisner, 1991) and enhances the researcher’s belief that “the results are valid and not a methodological artefact” (Bouchard, 1976, p. 268). Finally, the methodological triangulation minimised potential biases that may have occurred if the study had been a single-method study (Cassell and Symon, 2004; Patton, 1990). Most importantly, triangulation of data was likely to yield an enriched, elaborated understanding of research participants’ perspectives, thereby allowing the researcher to be more confident of her findings (Bryman, 2006a; Collis and Hussey, 2014). In this research study the result of triangulation is a rich narrative in form of a conceptual map that consists of a continuum of interpretations of PA impacts and perceptions of accountability relationships expressed by relevant key stakeholders.
5.4 Chapter conclusion

In this chapter, the applied sequential mixed-methods design was introduced and its three phases of data-collection and analysis were outlined. The document analysis preceding the survey followed by in-depth semi-structured interviews generated a rich set of empirical data that was analysed with the help of coding techniques and memoing applied to qualitative data, and descriptive statistics explaining quantitative data. Mixing qualitative and quantitative methods allowed the researcher to analyse and interpret data in a triangulated fashion to generate new and more in-depth knowledge about accountability relationships and PA impacts from stakeholders’ perspectives. Throughout the chapter it was further demonstrated how the researcher managed the limitations of this research design. The following four chapters present findings addressing the three RQs underpinning this research.
6 Stakeholders’ accountability relationships

6.1 Introduction

The examination of stakeholders’ accountability relationships and how those accountability relationships influence their perceptions of PAs is the focus of this first findings chapter, which addresses RQ1. Informed by the theoretical framework underpinning this study, this chapter analyses the dimensions of accountability relationships between stakeholders that empirically emerged from the data. In the sub-sections of this chapter the researcher assessed what key stakeholder groups understand as managerial, political and public accountability. It is here that stakeholders’ general perceptions of accountability dimensions and relationships in the institutional environment are explored.

Revisiting Dillard’s et al. (2004) concept of a cascading hierarchy of institutional influence exerted by the institutional environment on institutional actors populating the organisational field, this findings chapter examines how managerial, political and public accountability relationships at the organisational field level influence stakeholders’ perceptions of PAs. As will be demonstrated in the chapter’s sub-sections, the three rationalised myths of PA usefulness, the Three Es, and Audit Society anchored in the institutional environment of PAs influence stakeholders’ perceptions of accountability relationships (Meyer and Rowan, 1977). Another institutional concept that proved to assist in understanding stakeholders’ perceptions of accountability relationships is legitimacy (Deephouse and Suchman, 2008).

Forthcoming sections provide insights into how auditees, performance auditors, MPs and journalists perceive their accountability relationships to other stakeholder groups. Stakeholders’ descriptions of managerial, political and public accountability dimensions are summarised in tables, which list terms used in reports and documents as well as by interviewees to define their accountability relationships.

6.2 Managerial accountability relationships and their influence on stakeholders’ perceptions of performance audits

Managerial accountability is often referred to as accountability for performance. Those who are held accountable in managerial terms are required to demonstrate through output-based measures that services are provided efficiently, effectively and economically. In the public sector, the managerial accountability mechanism involves the monitoring and reviewing of inputs, outputs and outcomes and seeks to improve organisations’ performance by increasing their efficiency and effectiveness and enhancing their economic decision-making (Parker and Gould, 1999; Parker and Guthrie, 1993; Lonsdale, 2011) (see section 4.3.3.2).

With respect to VAGO’s PA mandate and in accordance with the general objectives of PAs (see section 2.3.1), it is the performance auditors’ task to hold auditees accountable for efficiency, effectiveness and economic decision-making. Auditees participating in interviews were asked how they perceive their relationships with VAGO performance auditors and whether they feel accountable to them. Although the majority responded that VAGO performance auditors put them under pressure to perform more economically, efficiently and effectively (see Table 12), it became clear that this pressure does not result from a formal accountability relationship between auditees and performance auditors. More precisely, by underlining that they “don’t have obligations to VAGO” (A4), interviewed auditees highlighted that they do not regard themselves and their organisations as holding direct accountability
relationships with performance auditors, which would require auditees to justify their performance to VAGO. From auditees’ perspectives, performance auditors only oversee and monitor public sector organisations’ performance. More precisely, interviewees referred to performance auditors as “just another pair of eyes” (A27) and a “watchdog” (A20) that informs other stakeholder groups of audited organisations’ performance but does not have the power and authority to command auditees as to what to do.

Although auditees claim not to be directly accountable to VAGO performance auditors, they are aware of the AG’s and performance auditors’ institutional power to elevate performance-related issues and issues resulting from auditees’ inaction on PA recommendation to political levels of attention. As will be discussed in more detail in section 6.3, performance auditors directly report to parliament and are politically accountable to MPs. They derive a requisite informal power from their political accountability relationships with parliament of which they make use when interacting with auditees. To prevent auditors from reporting performance-related issues to MPs, auditees expressed their interest in deriving legitimacy from performance auditors. They argued that being considered as operating appropriately in terms of public service delivery, does not only discourage performance auditors to return to audited organisations for the conduct of follow-up investigations or further PAs (see section 7.4.6), but also helps auditees to avoid attention from parliament and the media (see sections 8.4 and 8.5).

From auditees’ elaboration on their relationship with performance auditors, it further became evident that they do not always consider PAs as useful for improving audited organisations’ performance in terms of, e.g. efficient, effective and economic delivery of public services and programs (see Table 12). As will be explained in more detail in later chapters, several auditees view PAs as an oversight function instead of a performance improvement opportunity. In this regard, interviewees referred to PAs as “just a check method to make sure that we’re doing the right thing” (A13). Survey responses confirm auditees’ interview responses. Table 12 shows that auditees consider PAs to play a relevant role in exerting pressure on organisations’ performance (mean: 3.9), whereas they do not perceive PAs to assist them in improving organisations in terms of more efficient (mean: 2.6), effective (mean 2.3) and economic performance (mean: 2.2).

The majority of auditees perceive themselves to be accountable to their organisations’ executive management. Mean values clearly demonstrate that auditees (Table 12) perceive the executive management of their organisations to be most supportive in assisting them to improve the efficiency (mean: 4.2) and effectiveness (mean: 4.1) of their organisations, and to make better economic decisions (mean: 4.3). Referring to PA recommendations (see section 7.4), several auditees explained in interviews that they feel most accountable to their executive management as it is top managers who usually assign managerial accountability internally for the implementation of recommendations either to individual auditees or to groups of auditees. Those auditees are responsible for the timely and comprehensive completion of recommendations through a clear line of accountability (VAGO, 2015b). Auditees further explained that their line of accountability goes through the organisations’ executive management to the internal audit committees, to which auditees feel accountable. Public sector organisations have separate audit committees that assist the board by reviewing the organisations internal reports as well as auditors’ reports. Therefore, audit committees play a key role in the accountability and governance framework (VAGO, 2016c).
## Table 12: Auditees’ perceptions of their accountability relationships to other key stakeholders

<table>
<thead>
<tr>
<th>Through PAs the stakeholder…</th>
<th>Min-Max</th>
<th>VAGO</th>
<th>Parliament</th>
<th>PAEC</th>
<th>Ministers</th>
<th>Executive Management</th>
<th>Media</th>
<th>Public</th>
</tr>
</thead>
<tbody>
<tr>
<td>exerts pressure on our organisation’s performance.</td>
<td>1–5</td>
<td>3.9</td>
<td>2.0</td>
<td>2.1</td>
<td>3.9</td>
<td>4.3</td>
<td>3.8</td>
<td>2.1</td>
</tr>
<tr>
<td>assists us to achieve more efficient outcomes.</td>
<td>1–5</td>
<td>2.6</td>
<td>1.5</td>
<td>2.0</td>
<td>3.7</td>
<td>4.2</td>
<td>1.6</td>
<td>2.4</td>
</tr>
<tr>
<td>assist us to reach higher level of effectiveness.</td>
<td>1–5</td>
<td>2.3</td>
<td>1.3</td>
<td>2.4</td>
<td>3.7</td>
<td>4.1</td>
<td>1.7</td>
<td>2.3</td>
</tr>
<tr>
<td>assist us to make better economic decisions.</td>
<td>1–5</td>
<td>2.2</td>
<td>1.4</td>
<td>2.5</td>
<td>3.7</td>
<td>4.3</td>
<td>2.1</td>
<td>2.2</td>
</tr>
<tr>
<td>assist us to improve the overall ability of our organisation to reach its strategic objectives and its mission.</td>
<td>1–5</td>
<td>2.1</td>
<td>1.4</td>
<td>2.3</td>
<td>3.6</td>
<td>4.3</td>
<td>2.0</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Note 1: The numbers represent mean values.

Note 2: 1 = strongly disagree; 2 = disagree; 3 = Neither agree nor disagree; 4 = agree; 5 = strongly agree

Note 3: n = 82

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26 i.e. deliver better programs for the given level of financial and human resources.

27 i.e. achieving intended goals of provided programs.

28 i.e. reduction of the costs of resources used for a program while maintaining program quality.
Audit committees consist of a mix of independent and internal members. To ensure that the audit committee works with a degree of independence, Chief Executive Officers or Chief Finance and Accounting Officers of the public entity cannot be members of internal audit committees (DTF, 2018). While auditees retain ultimate accountability for their operations, it is the audit committees’ role to monitor and assess whether organisations’ run their operations effectively, efficiently and economically (VAGO, 2016c).

According to the Standing Directions 2018 audit committees are obliged to oversee and to regularly review auditees’ implementation actions of PA recommendations and assess auditees’ progress in implementing suggested changes (DTF, 2018). With regards to managerial accountability relationships to audit committees, auditees outlined that they feel accountable for advising committee members on how they intend to address those recommendations, and to report to the audit committee the timeframe and the outcomes of implementation actions:

“We’ll have to report back to our internal audit committee that wants to know that we’ve taken the recommendations on board from the VAGO performance audit and we have to be very accountable for doing that.” (A16)

Some auditees emphasised that they feel accountable to audit committee members as those members – as part of their overview function – carefully review and scrutinise auditees’ implementation actions before they approve that recommendations were fully implemented:

“We run every single recommendation through our committee. Audit committee members are involved in the entire process, from receiving the report to the point of implementation. It is the committee members who tick the boxes and confirm that recommendations were implemented accordingly.” (A30)

In this regard it was further outlined by auditees that the oversight and monitoring role of audit committees constitutes an accountability mechanism that is of a managerial nature as audit committees monitor auditees’ implementation actions of performance auditors’ suggestions of how to improve organisations’ performance. It is the internal oversight and monitoring role audit committees take on that is of utmost importance from performance auditors’ perspectives (VAGO, 2015b; see also Table 13).

According to VAGO (2015a), public sector organisations’ operation of well-functioning audit committees is highly relevant as informed and probing audit committees enhance the accountability of auditees for their responses to PA recommendations. That is done by holding management accountable for overdue actions on recommendations (VAGO, 2015b). Results from document analysis have shown that following VAGO (2015b, p. xi) “a clear line of accountability for the timely and comprehensive completion of recommendations” enhances recommendation completion rates (see section 7.4), thereby leading to better PA outcomes and better performance of public organisations in terms of the three Es.

Despite auditees’ claim of feeling accountable to audit committees, VAGO (2015a, p. xi) reported that it was surprising “to see that not all agencies have audit committee or board level

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29 The Standing Directions 2018 are issued by the Minister for Finance under section 8 of the Financial Management Act 1994. They specify and outline public sector organisations’ responsibility to achieve high standards of public financial management and accountability (DTF, 2018).
monitoring of recommendations”. More precisely, when conducting follow-up audits VAGO (2015b) found that one fifth of audited organisations in Victoria were not compliant with the requirement of the Standing Directions 2018. These organisations neither regularly provided progress reports on recommendation implementation actions to their audit committees, nor considered their audit committees to play significant monitoring roles. That audit committees did not always fulfil their role in seeking assurance that recommendations were addressed by auditees in a complete and timely manner (VAGO, 2016d; PAEC, 2014a), was confirmed by MP2:

“[T]o my absolute horror I found out that some organisations didn’t even have proper functioning [internal] audit committees. I just couldn’t believe it. So, by asking ‘do your recommendations get tabled in the [internal] audit committee meeting?’ ‘Do the audit committee people, especially the so-called experts [...] do they know what the heck is going on?’ And sometimes they just didn’t. [...] If these guys don’t know how do they hold whoever is managing to account?”

According to the interviewee, PA recommendations were often not tabled in audit committee meetings, resulting in committee members not being aware of the nature of recommendations and auditees’ implementation actions. It was concluded by MPs that because committee members were not aware of PA recommendations, there was no functioning internal managerial accountability process in place to hold auditees accountable for the timely and appropriate implementation of recommendations.

Table 13: Stakeholders’ perceptions of managerial accountability: results of open, axial and selective coding

<table>
<thead>
<tr>
<th>Stakeholder Group</th>
<th>Managerial Accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditees</td>
<td>Reviewing, overseeing, monitoring, check-list, pressure, outcomes, internal audit committee, reporting, scrutinise, tick the box, performance improvement.</td>
</tr>
<tr>
<td>Performance auditors</td>
<td>Oversight, monitoring, internal audit committee, internal oversight, informing, probing, timely and comprehensive completion, outcomes, efficiency, effectiveness, economy, authority, soft power.</td>
</tr>
<tr>
<td>MPs</td>
<td>Monitoring, oversight, verification, internal audit committee, audit committee meeting, board level, assurance, complete and timely implementation, tabled recommendations, address recommendations, internal accountability, soft power, hard power, pressure, authority.</td>
</tr>
<tr>
<td>Journalists</td>
<td>Efficiency, performance improvement, public performance, change.</td>
</tr>
</tbody>
</table>

According to MPs, performance auditors play a major role in holding auditees to account and improving public performance. However, MPs acknowledged that performance auditors exert “soft power rather than hard power” (MP4), which implies that performance auditors have no authority to force auditees to implement recommendations. MP4 further elaborated on the meaning of soft power and what it implies for the public sector accountability framework:

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30 Listed terms are the recurring keywords used by relevant stakeholders in interviewees and documents to qualify their perceptions of managerial accountability.
“By soft power, I mean if [...] VAGO [...] embarrassed the department sufficiently publicly, then that causes the shadow minister [...] to put pressure on the minister [...] and then that might lead to systemic changes inside the department.”

According to this statement, performance auditors hold diagonal accountability relationships with auditees, which give performance auditors the power to publicly blame auditees, but not to impose sanctions on them for not acting upon recommendations. Therefore, performance auditors can draw parliamentary opposition members’ attention to PA outcomes with the intention to fuel the accountability circle. Performance auditors’ soft power has also been acknowledged by VAGO in annual reports and reports to parliament, in which VAGO clearly outlines that performance auditors do not hold formal accountability relationships with auditees:

“We cannot direct agencies to respond to our findings, or accept and implement our recommendations, as legislation gives the Auditor-General no executive authority.” (VAGO, 2012a, p. 30)

Performance auditors, as argued by auditees, are only the producers of PA reports, which identify who is accountable for performance deficiencies (see section 7.3). They can only point auditees towards a desirable direction.

There is general consensus among auditees that PAs provide an important role in independent assessment of the performance of public sector organisations in Victoria. While A15 concludes that PAs are “an absolutely essential component of our government system of independent and transparent government”, A2 describes PAs as “an unbiased view looking at particular elements, looking at what is happening in the organisation” and thereby supports the accountability framework. In this regard and with regards to survey results (see Table 12), it was mentioned by auditees that performance auditors through their reporting on auditees’ performance, increase the transparency of auditees’ performance, which in turn puts pressure on auditees to perform well:

“I think the most powerful mechanism to drive performance is transparency. Improved reporting of outcomes is a great incentive to actually perform well. People know that your performance will be reported. That’s an accountability mechanism [...] it’s ultimately the fact that there’ll be a light shone on your performance that gives you an incentive to actually perform more effectively and efficiently.” (A28)

Hence, according to this interviewee, performance improvements in terms of the three Es emerge from the extensive accountability mechanism that is fuelled by PA activity, which makes public organisations’ performance transparent for other stakeholder groups, and thereby encourages auditees and creates incentives for them to perform better. According to some auditees it is the constant checking and inspecting by performance auditors that does improve performance:

“[U]ltimately, it is about efficiency and effectiveness, et cetera, but the way that happens in practice is because you got someone scrutinising your performance, you got someone effectively holding you accountable.” (A28)

Similarly, other auditees argued that the presence of VAGO and its PA mandate have a direct effect on auditees’ behaviour and actions as emphasised by A17.
“[T]hey can’t look at everything but you know that they’re going to look at something every year, and there’s probably that sort of feeling that I better do the right thing because at some time I might get audited. So, it does regulate your behaviour and influence your behaviour in some way. So, I think it’s vital that you have that accountability in there that sort of provides that, if you like, to make sure you are trying to do the right thing.”

Such statements provide evidence that auditees have become part of what Power (2000, 2003a) terms as the Audit Society. Auditees have institutionalised VAGO’s PA practice and accepted the possibility and practice of being frequently investigated by performance auditors. Frequent and often ongoing PAs influence auditees’ behaviour and prompt them to perform well. Several auditees perceive PAs as useful as will be explained in more detail in forthcoming sections. However, some hold less positive perceptions about the usefulness of PAs, arguing that from an accountability perspective PAs give other stakeholder groups the opportunity to hold public sector organisations accountable. In this regard, A27 underlines that particularly MPs “love” PAs as they provide them with material “to beat you on the head with” in situations where PA issues are elevated to higher levels via the accountability chain, which the research further elaborates on in the next section.

6.3 Political accountability relationships and their influence on stakeholders’ perceptions of performance audits

In political systems such as the Westminster system, accountability is often exercised along a hierarchical chain of accountabilities (Bovens, 2010; Parker and Gould, 1999). The political system of Australia complies with Westminster traditions. Although the hierarchical accountability chain is said to be outdated (Sinclair, 1995), participants in this study repeatedly emphasised the upward process through which accountability is exerted. When asked about their perceptions of accountability relationships in the institutional environment of Victoria, several interviewed auditees made direct reference to the “hierarchical chain” (A14) along which they are accountable to government executives, who are accountable to ministers and through ministers to MPs.

The importance of the accountability relationship to ministers was identified in the questionnaire. Survey findings indicate that auditees perceive ministers to play an important role in improving organisations’ economic performance (mean: 3.7), efficiency (mean: 3.7) and effectiveness (mean: 3.7) as it is the ministers who can exert pressure on auditees (mean: 3.9) (see Table 12). From A9’s perspective, for instance, “the Auditor-General can’t tell us what to do but our ministers can” as ministers have the institutional power to exert pressure on auditees through the lines of reporting anchored in the legislative framework of the Westminster system. Several auditees describe the minister as their number one accountability relationship.

Regarding auditees’ accountability relationship to MPs, particularly state government auditees pointed out that parliament plays a crucial role in holding auditees accountable in parliamentary hearings for inaction in relation to the implementation of recommended changes (see section 8.5.2). Given parliament’s institutional power, auditees describe their accountability relationship to MPs as the “highest standard of accountability in political terms” (A22). However, they also contend that although their accountability relationship to MPs is a crucial one that may entail serious consequences for auditees, the relationship is of an indirect nature as it goes through the ministers and therefore through the hierarchical accountability chain.
That is why, as shown in survey findings, on average auditees feel more accountable to ministers than to MPs and parliamentary committee members (PAEC) in terms of their performance. In this context, it was reasoned by auditees that while they consider that parliament does not have the authority to enforce the implementation of recommendations, ministers can instruct auditees to act upon recommendations. This was also recognised by MP5 who claims that “[t]he only people that can force the implementation of recommendations are the ministers of the departments”. These perceptions that auditees hold of parliament are seen by MPs as one major problem with regards to the accountability framework:

“The [state] departments view the parliament as a temporary thing and themselves as a permanent thing. They see members [of parliament] come and go but they’re there forever, they’re the king of the castle. [...] That’s why the tail wags the dog. That’s why the department does whatever it likes.” (MP2)

According to auditees the accountability relationship between them and MPs in the PA context is limited to the political term of the government of the day. MPs consider this as a major “loophole” (MP2) which is perceived as “a problem that will break down the system” (MP1). As interviews with MPs have shown, auditees’ views of parliament and their denial of direct, straight-line accountability relationships to MPs are the main reasons why MPs consider PAs as such an important tool:

“[Y]ou have to put VAGO out there yelling ‘pay attention’. That’s where I see VAGO as such a valuable tool [...] because they’ve got the imprimatur of getting there and find out (a) what’s really going on and not what they [auditees] say is going on, and (b) trying to come up with some recommendations.” (MP2)

Examining documents and reports relevant for this study, the researcher noticed the frequency with which parliament emphasises the importance of VAGO’s PA mandate. It became evident that MPs rely on the independent investigations of the AG and his office (PAEC 2010b).

“In countries operating with the Westminster system of government [...] Auditors General are an important means used by Parliament, on behalf of the community, for holding elected governments accountable for the use of public resources entrusted to their control. [...] The position of Auditor General within this model is considered a crucial link in the process of accountability to the taxpayer on the utilisation of public funding. The principal role of the Auditor General is to provide assurance to Parliament on accountability and performance of the Executive Government.” (PAEC, 2010b, p. 5)

MPs emphasise that performance improvements in the public sector will only be reached if auditees are held to account. They refer to holding to account as the crux of the PA function. The necessity for performance auditors to hold auditees to account was emphasised by MP2 who criticised the public sector organisations’ lacking accountability, referring particularly to state government departments:

“In terms of accountability it’s a very clear structure but [...] the departments are a law unto themselves. They do whatever they like [...] it’s just like sitting on top of a mountain [...] How can you possibly know what’s going on there.”

In the following example the interviewee elaborated further on the meaning of mountain, claiming that it is not uncommon that performance-related issues are not noticed by auditees as the lines of accountability and reporting range across multiple levels:
“[W]e had a former minister who was extremely good at his job [...] So he had a matter coming through from this level and then went up to the next level, next level, next level and ends up on his desk and he has got his chief of staff and he has got his departmental secretary and he’s looking at it [...] and he says ‘hang on a minute this doesn’t make sense... what about this here?’ And he was right and it took about five levels and he’s the guy to pick up the mistake. And you just think ‘what the hell is going on there?’” (MP2)

From MPs’ perspectives, as a consequence of the multiplicity of accountability layers, accountability lines can be “very messy” (MP3), unstructured and undefined. MPs stated that especially in state departments “there is a lack of accountability” (MP3). Auditees use the messy accountability lines as an opportunity to hide behind multiple layers that are part of the accountability mountain. Thus, MPs conclude that PAs are a highly significant and useful tool for cutting through the multiplicity of accountabilities and making transparent the various issues related to organisations’ efficiency, effectiveness and economic performance.

According to MPs, PAs are of great value because they detect inefficiencies, for example, in public sector organisations’ service delivery, that parliament does not have the ability to investigate and thereby support MPs in holding auditees to account. That is why MPs consider performance auditors as a conduit for detecting mismanagement and deficiencies and holding the responsible individual, group of auditees or entire organisation accountable for inappropriate behaviour and actions that (1) members of the public, (2) MPs, and (3) the media would otherwise have never found out about.

PAs, in the words of MP2, are the “arms and legs” of the accountability process in the Victorian public sector. MPs describe their relationships with performance auditors as one of complementarity. This view is also shared by VAGO, which underlines the role of MPs. Following VAGO (2012a, p. 30), performance auditors’ “only recourse is to expose issues by reporting them to Parliament.” In other words, performance auditors can only channel accountability by elevating performance issues to political levels and exposing PA findings to parliament. Through their reports to parliament (see section 7.3), performance auditors inform and assist MPs and the public (see section 6.4), so that MPs and citizens “have a better understanding of the accountability and performance of the public sector” (VAGO, 2010b, p. 2).

According to the Audit Act 1994 it is VAGO’s primary role to provide assurance to parliament through the PAEC (VAGO, 2015b). Hence, it is not surprising that VAGO performance auditors as independent officers of parliament are regarded by MPs as an extension of the scrutiny role performed by the PAEC on behalf of the parliament:

“VAGO does the work in the agency or department and then reports to the parliament. So, in terms of the accountability of VAGO to the parliament and to the people of Victoria, that’s outstanding.” (MP2)

MPs underline that although performance auditors are accountable to the PAEC through a direct reporting line, they conduct audits independently. From a parliamentary perspective it is important to note that MPs do not have the power to direct the AG, but they need to ensure that the AG is independent of government and independent of parliament, but politically accountable to parliament through the PAEC (VAGO, 2019). The strong features of the AG’s accountability to parliament anchored in the Audit Act clearly illustrate that VAGO PAs are a political instrument of the state parliament. In this capacity, performance auditors have the
fundamental purpose of serving the interests of the parliament, and through it the needs of the public (PAEC, 2010b, p. 10).

Table 14: Stakeholders’ perceptions of political accountability: results of open, axial and selective coding

<table>
<thead>
<tr>
<th>Stakeholder group</th>
<th>Political Accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditees</td>
<td>Political, policy, blame, sanction, parliament, PAEC, institutional power, institutional pressure.</td>
</tr>
<tr>
<td>Performance auditors</td>
<td>Westminster system, expose, reporting line, elevate, assisting parliament, on behalf of parliament, PAEC, Audit Act, independent officers.</td>
</tr>
<tr>
<td>MPs</td>
<td>Westminster system, political terms, ministers, upward, hierarchical chain, accountability mountain, layers, multiplicity, Audit Act.</td>
</tr>
<tr>
<td>Journalists</td>
<td>Hold peoples’ feet to the fire, better results, real change, tax dollars, spending taxpayers’ money, reporting, PA reports.</td>
</tr>
</tbody>
</table>

VAGO’s PA mandate is considered as highly significant by journalists. In interviews they emphasised that it is the accountability mechanism exercised in the PA process that leads to improvements in audited organisations’ efficiency, effectiveness and economic performance:

“It is the job of the Auditor-General to basically hold people’s feet to the fire and say, ‘We need a better result here’ […] as a reporter, I definitely see that it leads to real change.” (J1)

Even though journalists claimed not to hold any direct accountability relationships with performance auditors or MPs, they maintain that they support performance auditors and MPs in holding auditees to account through press coverage of public performance issues: “it is our job to hold the public sector accountable” (J3). The significance of journalists’ role of exerting accountability was emphasised by J1 who contends that “if we left it up to them [auditees] to only tell the story about what they were doing, everything would be rosy.” In this regard, journalists claim that their role is aligned with that of performance auditors in terms of probing how well tax dollars are spent, whether the public is receiving value for money, and by holding the government of the day to account for its performance. Journalists are aware that they fuel the public debate through their press coverage of public performance issues, whereby political accountability is exerted by MPs who read and then utilise media articles. Informed by the media, parliament then seeks to hold ministers to account. According to journalists, this “trickle-down effect” (J3) ultimately results in auditees being held accountable by their executives. Some MPs openly declared that they deliberately use the media to fuel the public debate by drawing public attention to certain issues, to attack and to criticise auditees, and to hold them accountable. This strategy is mainly used by opposition members.

6.4 Public accountability relationships and their influence on stakeholders’ perceptions of performance audits

Auditees acknowledged in survey responses and interviews that the list of stakeholder groups demanding answers regarding a multitude of issues can sometimes be long. In the PA context

31 Listed terms are the recurring keywords used by relevant stakeholders in interviewees and documents to qualify their perceptions of political accountability.
relevant for this study, they consider themselves being accountable to different accountability forums to a varying extent. Although survey results imply that the relationship between auditees and the public is not based on strong accountabilities in terms of performance improvements (see Table 12), in interviews multiple auditees explained that they feel accountable to the public for the use of public money. A4, for example, justifies the perceived accountability relationship with the public by arguing that “we are accountable to the public because we’re using their money to fund our organisation”, to which A26 adds that public sector organisations “daily feel accountable to the community because it is their money and we only exist because of the community as a sector.” As these statements indicate, auditees’ perceptions of accountabilities to the public are conditioned by auditees’ use of public money to fund and provide public services and programs.

When probed in interviews how they feel accountable to citizens, for what and to what extent they feel accountable, auditees explained that there is no direct accountability relationship they hold with citizens, as auditees’ relationship to the public is channelled through elected ministers and other MPs who have been referred to as “representatives of the people” (A2, A3). When describing their accountability relationship to the public, auditees explained that they do not feel the need to justify their performance to citizens. Instead they appear to be motivated by the aspiration to be perceived by citizens as providers of high-quality public services and programs that benefit the public. Auditees’ legitimacy-seeking behaviour is justified by the fact that if citizens are not satisfied with services and programs provided by public sector organisations, issues will be reported to political levels. Moreover, auditees are aware that if they are perceived as legitimate by politicians and the public, the media is less likely to publicly blame audited organisations.

According to survey results (see Table 12), auditees consider the media as a source of pressure that puts audited organisations under the spotlight and holds auditees to account through articles on their insufficient performance (see section 8.4). However, as survey results show, pressure exerted by the media does not necessarily spur auditees into action to produce more efficient outcomes, to reach higher levels of effectiveness, and to make better economic decisions. This is mainly due to the continuous critical media reporting, which has been referred to as “public shaming” (A22) by auditees. When asked in interviews whether they felt accountable to the media, one auditee asserted that the accountability to the media “is pretty much a one way street... they publicly blame you for things that went wrong... things that are not always in your power [...] but we are not directly accountable to the media in a sense that we need to justify to them what went wrong and why.” (A30)

Despite auditees’ claims not to be accountable to the media, in interviews several auditees expressed their awareness of being required to address concerns raised by the media via press coverage. Auditees often answer media concerns by releasing press statements or reports addressing relevant issues. Moreover, interviewed auditees referred to past situations where recommended changes were implemented as a consequence of extensive press coverage of PA findings. In this regard it was mentioned that the press coverage was not the determining factor leading to the adoption of change, but was one of the factors that triggered auditees’ implementation actions. This form of response to media concerns demonstrates auditees’ legitimacy-seeking behaviour. Through such legitimating actions, auditees hope to be perceived as responsible organisations that address citizens’ needs appropriately. Elaborating further on their perceived obligation to answer to media concerns, auditees reasoned that they
consider the media as proxy for the public opinion, with the potential to significantly influence public opinion. These perceptions held by auditees about the media have been confirmed by journalists who claimed in interviews to be accountable to the public, with the public interest being journalists’ main focal point of concern. Therefore, auditees consider it as important to be viewed by journalists as appropriate and well-performing.

From journalists’ perspectives, the high level of media interest in the activities of public sector organisations helps the public, MPs and performance auditors to scrutinise public organisations and to prompt them to operate more efficiently and effectively. Journalists claim to take the role as a conduit between performance auditors and the public:

“an ordinary member of the public can go to the Auditor-General’s website and read the report, but 99 per cent of people would never do that. So, what they are more likely to read is a journalist’s version.” (J1)

This statement signals that journalists perceive themselves as playing a major role in releasing findings from PAs into the public domain and mediating the public debate between relevant stakeholder groups. Interviews have shown that among journalists VAGO’s PA work is considered as very valuable accountability mechanism. Journalists’ perceived usefulness of PAs was underlined by J1:

“[S]o many of billions of dollars are at stake here and often from the outside, it’s really quite opaque how that money is being put to use, whether it’s being put to the best use most efficiently and as well as it could be. As a reporter from the outside you’re interested in that question, but you’re outside the system and there’s only so much you can kind of glean. You can ask questions, you probe, you sometimes get information from different sources, but the Auditor-General clearly is on the inside and has this washed-up hole where they can drill in and have high level access and so I think the Auditor-General’s role is invaluable.”

According to journalists, stakeholder groups such as the public and parliament can only get a glimpse of public sector organisations’ performance, whereas performance auditors “are behind the scene” (J1). It was further highlighted that performance auditors’ role is invaluable for the public accountability framework of the public sector:

“I think that helps keep a lot of the agencies on a narrow track and be more efficient [...] I think it [performance auditing] plays a pretty big role.” (J2)

From journalists’ perspectives, VAGO PAs are primarily useful because they publicly blame auditees for poor performance and thereby, enhance the accountability of the public sector. It is PAs’ feature of holding to account those who are responsible for poor performance, inefficiencies and wasted taxpayers’ money that lead to public performance improvements with regards to efficiency, effectiveness and economy.
Table 15: Stakeholders’ perceptions of public accountability: results of open, axial and selective coding

<table>
<thead>
<tr>
<th>Stakeholder group</th>
<th>Public Accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditees</td>
<td>Community, public, citizens, people, public opinion, public service, public program, public money, benefit the people, funding, taxpayers, media, critical reporting, public shaming, public blaming, spotlight, institutional power.</td>
</tr>
<tr>
<td>Performance auditors</td>
<td>Availability of PA reports, VAGO homepage, website activity, accessibility of PA reports, VAGO website, communication of findings, accountability to the public, needs of the public, public accountability framework, responsibility</td>
</tr>
<tr>
<td>MPs</td>
<td>Public accountability framework, public, citizens, public hearings, public domain, PA report, public interest.</td>
</tr>
<tr>
<td>Journalists</td>
<td>Public, citizens, media, journalists, journalists’ version, conduit between AG and public, proxy, accountability, responsibility, blame, scrutiny, government of the day, public performance, story-telling, tax dollars, spending taxpayers’ money, value for money, AG website, PA reports, public domain.</td>
</tr>
</tbody>
</table>

Apart from the fundamental purpose of serving the interests of parliament (see section 6.3), it is performance auditors’ obligation to serve the needs of the public (PAEC, 2010b). Demonstrating VAGO’s responsibility to be accountable to the public and MPs, VAGO contends to continuously strive for improving the public accessibility of PA reports (VAGO, 2013a). For this purpose, VAGO is constantly seeking to improve the accessibility to and dissemination of PA findings, conclusions and recommendations and regularly measures the website activity of its homepage. In its annual reports 2010-2016, VAGO (2010c, 2011a, 2012a, 2013a, 2014b, 2015c, 2016d) announced that reports are being accessed by more people, more frequently. The increased interest in VAGO’s online presentations does not only reflect the public’s increased interest in VAGO’s PA work but also demonstrates VAGO’s success in increasing public awareness of PA work, enhancing the value of PA reports to impact on the public and parliamentary debate and to draw media’s attention to the office (VAGO, 2015c; see sections 8.4 and 8.5). It further demonstrates the strong accountability relationship with the public that VAGO holds.

Performance auditors’ accountability relationship to the public is further supported by VAGO’s annual plan that is considered to be a “key accountability mechanism” (VAGO, 2016d, p. 11). It does not only set out the PA work program, but also serves as an information provider for MPs, auditees, and the media. It gives those key stakeholders the opportunity to review VAGO’s PA program and to find out what topics performance auditors focus their PAs on.

6.5 Chapter conclusion

Chapter 6 addressed RQ1 and focussed on how accountability relationships between key stakeholders influence their perceptions of PAs. Guided by the study’s theoretical framework, empirical data from documents, survey questions and interviews, this research identified, explored and elaborated on the managerial, political and public accountability dimensions.

32 Listed terms are the recurring keywords used by relevant stakeholders in interviewees and documents to qualify their perceptions of public accountability.
Findings provide empirical evidence for stakeholders’ accountability relationships being of managerial, political and/or public nature. From the evidence presented, it appears that key stakeholder groups relevant for this research do not always have precise or explicit accountability relationships. For instance, while performance auditors claim to be publicly accountable to citizens, they describe their relationship as being indirect, channelled through parliament. Also, auditees labelled their political accountability relationship to MPs as indirect, claiming that their accountability to parliament is exerted along the hierarchical chain through ministers.

Further, auditees largely only feel managerially accountable to executives of their organisations’ and their organisations’ internal audit committee. No accountability relationship was identified between performance auditors and auditees. Based on those findings, the researcher concludes that in this study context, managerial accountability is exerted internally, within organisations. Nevertheless, it is the performance auditors who exert pressure and therefore provide the initial impetus for the execution of managerial accountability processes between auditees, their executives and internal audit committees. Interestingly, although auditees claim to hold managerial accountabilities internally with executives and audit committees, this does not always appear to be the case in practice. MPs and VAGO performance auditors have raised the issue of several public sector organisations not having properly functioning internal audit committees.

Another finding shows that the three dimensions are interconnected. When ministers become involved, issues related to the efficient and effective delivery of public sector programs and services become political. In this way, managerial accountability is being politicised. Occasionally, such issues are then taken up by MPs and the media, two stakeholder groups that feel predominantly accountable to the public.

This chapter has further demonstrated that relationships between some stakeholders are not based on accountability but rest on legitimacy-seeking behaviours. While auditees do not feel accountable to performance auditors, they seek legitimacy for their operations. Such findings are aligned with contentions made by Black (2008), who asserts that because legitimacy is not necessarily dependent on accountability relationships, organisations may seek legitimation from relevant sources without feeling accountable to those sources. For auditees, it is important to be granted legitimacy from performance auditors in order to be able to perform their routine activities and to avoid follow-ups and continuously repeating PAs.

Findings from this chapter are closely related to findings explained in Chapters 7, 8 and 9 as perceived accountability relationships appear to influence what stakeholders interpret as impacts. When explaining how their accountability relationships influence their perceptions of PAs, stakeholders frequently referred to, for instance, PA reports, PA recommendations, follow-ups, media attention to, and parliamentary interest in, PAs. The close relationship between the components of accountability dimensions and stakeholders’ interpretations of impact is reflected in the following findings chapters.
7 Process-induced performance audit impact factors

7.1 Introduction

Chapter 7 is the first chapter to present an interpretational account of what auditees, performance auditors, MPs and journalists consider as PA impact. The central concern of this chapter is to outline and elaborate on the impacts and impact-facilitating factors that emerge from the formal PA process as conducted by VAGO (VAGO, 2017c). The formal PA process begins with the PA scoping and ends with the tabling of PA reports in parliament (see section 2.4.2). From documents, survey results and interviews it emerged that auditees, performance auditors, MPs and journalists relate impacts and facilitating factors to the various different stages of the PA process. Actions directly related to the PA process that take place during and/or after the PA are subject of discussion in this chapter. Theoretical concepts that help to explain findings are the rationalised myths of Audit Society and PA usefulness.

As this chapter identifies and explains impacts and impact-facilitating factors that emerge from the PA process, its structure follows the sequence of a PA process. Thus, firstly, the researcher provides insights into the relationship between performance auditors and auditees. Thereafter, the PA report as the outcome of PAs will be discussed. In a next step, the potential of recommendations to impact on audited organisations will be elaborated on before VAGO follow-up inquiries on auditees’ recommendation implementation actions are investigated.

7.2 Auditor-auditee relationship

The relationship between performance auditors and auditees plays a significant role in the PA process and can substantially influence PA outcomes. As empirical evidence has shown, relationships between these stakeholder groups are driven by multiple factors discussed in the following sections.

7.2.1 Setting the performance audit scope: narrow scope or fishing exercise?

Before the commencement of PAs, performance auditors are required to set the scope of those audits. Scoping is regarded as a factor that facilitates impact as it directly relates to the PA focus and the materiality of recommendations (see section 7.4). Auditees have different perspectives on performance auditors’ scoping procedures. From interviews it became evident that two different views are represented: some auditees argue that auditors are supposed to do some initial preliminary planning, decide on the precise scope before the commencement of the PA and invoke the scope throughout the audit process. Others take the view that performance auditors should start PAs by identifying an area that requires auditors’ assessment, undertake their initial investigations and then “dig around a bit to try and find whether there’s any substance to that” (A9). Following this procedure, performance auditors start with applying a “broad brush” (A9) before they narrow down the scope. The latter scoping procedure was referred to as a “fishing exercise” (A5, A9) or “fishing expedition” (A27). According to auditees, when performance auditors go on a fishing expedition they often deviate significantly from the initially declared scope. According to A27 this implies that

33 See also Audit Act 1994.
“[y]ou never quite know where it’s going to land, and you never quite know if it’s going to be actually in the part where you’re expecting it or not.”

Hence, it is not surprising that some auditees view performance auditors’ fishing expedition as an attempt “to nail you” (A7). This often leads to auditees becoming suspicious and reserved, sometimes even restrained when dealing with performance auditors.

However, several auditees claimed to be sympathetic to the fishing expedition scoping procedure, highlighting that “VAGO has the right to look at whatever they want to look at” (A17) and that “it’s not uncommon for it [VAGO] to expand and not uncommon for it to change and not uncommon for it to cast a different net” (A22). Narrowing down the PA scope in the process is a procedure tolerated by most state government auditees, whereas local government auditees appear to be more suspicious of performance auditors modifying the PA scope when the PA is already ongoing. From state government auditees’ perspectives, auditors who notice during the PA that they have been pursuing a line of inquiry that has not eventuated should adapt the scope to set a clearer audit focus so that the PA leads to useful changes (see chapter 9). Performance auditors “who are on the wrong track in terms of their scoping do not add any value” (A34). While local government auditees expressed to feel “left out” (A34) by performance auditors at the PA scoping stage, state government auditees stated to be occasionally involved at the early scoping stages, whereby they support auditors in building and narrowing down the PA focus. Thereby, auditees supply performance auditors with relevant information about their organisations and draw their attention to areas that require investigation. For auditees, obtaining the opportunity to engage with performance auditors at early stages of the PA process is considered very positive with regards to building and maintaining trusting relationships with auditors.

7.2.2 Trust, respect and collaboration as basis for positive relationships

This study has found that a collaborative, trusting and respectful relationship between performance auditors and auditees during the PA process leads to better PA outcomes. More than 90% of survey respondents are convinced of PAs being more valuable when (1) performance auditors employ a collaborative approach during the PA process, (2) take into account auditees’ comments on audit findings, and (3) correct factual errors in PA draft report versions based on auditees’ disagreement with audit findings and conclusions (see Table 17). In interviews, auditees provided rationales for their survey responses and offered detailed explanations of what the key drivers for a positive auditor-auditee relationship are. In general, auditees are more “open and honest and self-disclosing” (A3) and provide more information during the PA process if trust is established:

“[I]f you have that relationship of respect and trust that means we […] provide all the information for you and you should be able to make judgment […] negative or positive […] then it can still be very tense but it’s a respectful relationship based on trust.” (A2)

Where the auditor-auditee relationship is characterised by mistrust and hostility, it is not uncommon for auditees to “hide information in the top drawer” (A2), whereas respectful and trustful relationships with auditors often lead to auditees providing more information than required. This approach is fuelled by the assumption that “in order to get the complete picture, the Auditor-General has to understand other bits as well” (A16).
Table 16: Performance audit effects on public sector organisations

<table>
<thead>
<tr>
<th>Performance audits have stronger effects on our organisations when auditors…</th>
<th>Min-Max</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>(\bar{x})</th>
<th>(\sigma)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) demonstrate a collaborative style during the PA (e.g. communicate in an open manner).</td>
<td>3–5</td>
<td>0.0%</td>
<td>0.0%</td>
<td>6.1%</td>
<td>39.4%</td>
<td>54.6%</td>
<td>4.5</td>
<td>0.6</td>
</tr>
<tr>
<td>(2) take into consideration our comments made during the audit.</td>
<td>3–5</td>
<td>0.0%</td>
<td>0.0%</td>
<td>1.5%</td>
<td>42.4%</td>
<td>56.1%</td>
<td>4.6</td>
<td>0.5</td>
</tr>
<tr>
<td>(3) correct factual errors based on our disagreement with audit findings and conclusions.</td>
<td>3–5</td>
<td>0.0%</td>
<td>0.0%</td>
<td>3.0%</td>
<td>40.9%</td>
<td>56.1%</td>
<td>4.5</td>
<td>0.6</td>
</tr>
<tr>
<td>(4) encourage us to comment on their recommendations.</td>
<td>1–5</td>
<td>1.5%</td>
<td>0.0%</td>
<td>4.6%</td>
<td>39.4%</td>
<td>54.6%</td>
<td>4.5</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Note 1: SD = strongly disagree; D = disagree; N = Neither agree nor disagree; A = agree; SA = strongly agree; \(\bar{x}\) = mean; \(\sigma\) = standard deviation

Note 2: n = 82

34 In the comment section of the survey several auditees revealed that they have not always been involved in the entire PA process and therefore chose to “neither agree nor disagree” when they were not certain what answer to choose.
Opposing opinions have also been presented by auditees who have had negative experiences with performance auditors: one auditee (A18) claimed that when performance auditors ask for information, “it would be best to get a lawyer to say, ‘how much [information] do I give them?’”, while another (A7) auditee stated that it would be best to “build a moat around the place” when performance auditors arrive.

Some auditees described their negative PA experience arguing that talking with PAs is “almost like two alien species talking to each other” (A27), emphasising the importance of respectful communication between performance auditors and auditees. From auditees’ perspectives it is all about the relationship management with auditors during the PA process. To foster this relationship and to mitigate the risk of PAs of not adding any value, state government auditees claimed to actively engage with performance auditors:

“I want there to be some value in that... the better the relationship we have with them and the more integrated they are with us in terms of being able to see what we do and what our challenges are, I think the better position they are in then to make decisions.” (A9)

Most state government auditees claim to have positive relationships with performance auditors. They consider good relationships as highly significant since they prefer to have “an open dialogue with them whereby [they] can influence them to an appropriate degree” (A9). Considering PAs as opportunity for improvement, state government auditees outline that departments sometimes consult performance auditors if internal issues are detected. The departments seek for performance auditors’ assistance and encourage them to conduct PAs in order to ensure that internal performance issues are addressed by auditees: “asking the Auditor-General to elevate the issue, make it public in some way is enough to get everybody saying, ‘Okay, we’ll fix it’” (A11). Another motif for keeping good relationships with performance auditors is to avoid media attention (see section 8.4):

“[H]aving a good relationship with performance auditors is considered an asset in this department [...] you are at risk of being publicly criticised in the media if the AG has any interest to punish you [...] we prefer to avoid that.” (A27)

Consistent with this view, other auditees were continuously working on maintaining positive relationships with performance auditors in order to not “get on to the front page of The Herald Sun” (A28).

7.2.3 Frequency of auditees’ exposure to performance audits

This study found that the level of engagement between auditors and auditees differs depending on the level of government.35 State government auditees engage more frequently with auditors than local government auditees. While most state government auditees perceive performance auditors to engage well and to welcome the opportunity to “meet with them five or six different times formally, [...] get briefings from them, [...] get two versions of the report to look up” (A9), the relationship between performance auditors and local government auditees was described as

35 Section 5.2.2.6 shows the number of local and state government auditees participating in the survey of this study. Appendix 4 lists interview participants and shows whether they are local government interviewees, state government interviewees or interviewees representing other forms of public sector entities.
Local government auditees often find it more challenging to be the target of PAs as opposed to state government auditees. This, according to A9, is due to the frequency of exposure to PAs:

“[B]ig government departments have a much better understanding of how VAGO works [...], whereas councils and smaller agencies will find it much more troubling and kind of challenging because they just don’t have that exposure. As a state department we get seven, eight, ten or so performance audits a year. We just churn through them. We know them. When the Auditor-General comes into the department then we set the scene […]. We don’t hide things.” (A9)

As a consequence of their frequent exposure to PAs and interaction with performance auditors, state government auditees have developed a strong audit culture and have become more audit able (Power, 2000). While for state government departments dealing with “a full book” (A17) of PAs is not unusual, local government councils experience PAs only once every three to five years. Due to the infrequent encounter, local government auditees often perceive PAs as “more of a shock” (A32). They identified the limited interaction as a constraining factor in terms of relationship management with performance auditors and the valuable contribution of PAs. Moreover, interviews with local government auditees have shown that they do not fully understand the PA process. Some interviewees were not aware of PA reports being tabled in Parliament. Their lack of understanding is a reflection of local government auditees’ limited exposure to PAs.

7.3 Performance audit reports as outcomes of performance audits

PA reports are the products of PAs that are tabled in parliament after the PA process is finalised, findings have been discussed and recommendations have been made. Analysed documents, survey responses and interviews have demonstrated that stakeholders hold different views of PA reports’ ability to improve public performance and facilitate positive change. Study participants emphasised various factors that influence the effect PA reports have. These factors are discussed in subsequent sections.

7.3.1 Performance audit reports as accountability tool

By publishing PA reports on the VAGO website, performance auditors inform MPs, auditees, the media and the public of the performance of the Victorian public sector (VAGO, 2012a). The power that performance auditors exert through PA reports is also recognised by auditees who are mainly concerned with the reach PA reports have:

“[T]hey have a power that’s over and above and that’s their report to Parliament… they report to Parliament, which then get in the media.” (A7)

In other words, PA reports function as a public accountability tool that does not only provide stakeholders with insights into performance issues but also allows them to form judgement and to hold auditees publicly accountable (VAGO, 2011a, 2014b; see section 6.4).

“[I]t’s about transparency and accountability, and so it doesn’t always lead to efficiency, but it definitely makes you more accountable and transparent to others.” (A16)

The function of PA reports to make auditees more accountable was confirmed by several auditees, who further stated that it is the accountability mechanism, which ultimately leads to performance improvements in terms of the three Es (see section 7.3.2) through other
stakeholders’ scrutiny of audited organisations’ performance and their ways of effectively holding auditees to account. Performance auditors are aware that PA reports inform and support MPs and welcome that MPs intensively use PA reports to drive political accountability mechanisms (see section 6.3). For example, PA reports inform parliamentary inquiries and public hearings and thereby support MPs in holding auditees to account (VAGO, 2010c, 2011a, 2012a, 2013a). That PA reports are used by MPs to hold auditees publicly accountable was confirmed by survey participants who experienced parliamentary inquiries and/or hearings. Of survey participants, 31.8% (strongly) agree to PA reports being used by MPs for accountability purposes (see Table 17). In interviews, auditees expressed their concerns about MPs regularly using PA reports as a “weapon” (A27):

“[I]t’s something that PAEC members love because it gives them material, that is the whole problem. For us, as a receiver, basically, it’s an opportunity to give someone a stick to beat you on the head with.” (A27)

Auditees who (strongly) disagreed (16.7%) with PA reports being used by MPs to hold them accountable (see Table 17), stated in interviews that MPs do not necessarily use PA reports with the intention of enhancing organisations’ performance but instead to attack the government of the day. Opposition members routinely give PAs “some degree of political flavour” (A18) by referencing PA reports in parliamentary debates and inquiries, among others, to attract media interest and to improve their political image (see section 8.5).

PA reports are “invaluable sources” (J1) for journalists, and the “heart of the story” (J1) from which journalists derive relevant information. PA reports are considered vital by journalists because they “really break down in exhaustive detail what went wrong and why” and outline in print, visible for everyone “who is accountable and for what” (J1). That explains why from journalists’ perspectives, PA reports are “fantastic accountability tools” (J3).

Interviewed MPs underline the significant role PA reports play in the public accountability framework arguing that PA reports “are of great indispensability” (MP4) and that “[f]rom an accountability perspective, VAGO reports are very, very important because of the public scrutiny” (MP5). They so highly value the critical third-party perspective because PA reports list (1) what went wrong, (2) why it went wrong, (3) who is accountable, and (4) how to improve the performance of the public sector. Therefore, PA reports are used by MPs “intensively and in detail, to drive particular Parliamentary accountability processes” (VAGO, 2010c, p. 12). MP3 highlights that the accessibility and exposure to the public and parliament is what is significant for PA reports to have impact:

“[W]hat’s important is not that everyone reads it, but that it’s out there and if it’s available to me it means it’s available to the public and that’s the important thing. The important thing is that the work is done and it’s available to the parliament, but it’s also available to the public. [...] well, not all of the 128 parliamentarians are going to be reading the report. [...] probably six or seven will, including the minister, who’s probably going to ask questions about it. And that’s – really, that’s the important thing.”

For MPs, PA reports are the tools to generate impact. PA reports enable them to monitor and scrutinise public performance issues and recurring matters, support them to identify and choose PAs to follow up on, and are their source of knowledge relevant to hold parliamentary hearings (PAEC, 2014b).
7.3.2 Performance audit reports as performance improvement tool

PA reports do not only provide valuable reflections on public performance but also function as a “catalyst for change and an impetus for decision-makers” (VAGO, 2014b, p. 10). With regards to organisational change (see Chapter 9), VAGO (2014b) declares it has seen changes made to audited organisations’ practices in response to PA reports. VAGO therefore considers PA reports to facilitate change in audited organisations by making public PA findings and recommendations (VAGO, 2015c, 2016d).

With due regards to the impacts of PA reports several auditees stated that PA reports voice concerns that management had already identified, and thus, support them in convincing their teams that the deficiencies previously identified need to be addressed and that changes suggested by performance auditors are necessary. State government auditee A1, for example, explained that “[PA] reports have confirmed that what we were worried about is correct.” Hence, some auditees consider PA reports to have an affirmative function. In other words, PA report findings did not take them by surprise and were in fact not unexpected. Several local government auditees, however, hold opposing views as outlined by A21 who argues that performance auditors’ “final report shouldn’t be a shock, but it generally is”.

In other cases, auditees highlighted that they were appreciative to performance auditors for bringing inefficiencies to their attention in form of PA reports. Referring to a particular PA, A2 explained that the PA report led to auditees’ relief as PA findings revealed performance inefficiencies that auditees were aware of but had not been sufficiently confident to publicly expose them:

“Throughout the organisation the people are pleased that it is disclosed because that means that someone else other than them is saying it [...] there was almost universal sigh of relief in this work.” (A2)

Before the PA, the organisation was operating out of nine different databases that were not well-connected, therefore slowed down internal processes, and in turn, hindered the efficient provision of services.

7.3.3 Materiality of performance audit reports

More than half of the survey participants consider PA reports as unbiased (59.1%) and perceive them to reach conclusions that are supported by relevant facts (64.7%) (see Table 17). However, as standard deviation values (0.9 and 1.0, respectively) for these statements show, perceptions of respondents are quite divided. Auditees who (strongly) disagree with those statements, explained in interviews that they question the materiality of PA reports because the context is often missing. They would prefer performance auditors to provide more background information instead of being reluctant to spell out the institutional environment and its political, and regulatory boundaries (see section 4.2.2) within which organisations operate and to disclose the limiting factors that trigger performance issues. According to auditees, in PA reports performance auditors often present an inaccurate picture of the audited organisation to the public and other stakeholders. Despite several auditees perceiving PA reports as biased (18.2%) and not fully disclosing important facts (20.0%), a total of 84.8% of respondents regard PA reports as a valid basis for internal discussion of improving processes, programs or other services (see Table 17). Those few who (strongly) disagreed (7.6%) with using PA reports internally, asserted in interviews that they do not take notice of PA findings and
recommendations because performance auditors make deliberate use of “overly critical” (A16, A25) language and report on minor, irrelevant issues to justify their existence.

MPs value the specific focus of PA reports. From MPs’ perspectives, the contribution of PA reports lies in the evaluation of public organisations’ specific programs like, for example, Effectiveness of Victims of Crime Programs (VAGO, 2011c) and services such as, for instance, Early Childhood Development Services (VAGO, 2011b) and Efficiency and Effectiveness of Hospital Services: High-value Equipment (VAGO, 2015d):

“[PA reports] tend to be on specific aspects of a department’s function rather than the whole thing. [...] that aspect would probably be lost in the bigger picture of the [department’s] annual report – and so it would be concealed.” (MP3)

While issues concerning public programs and services would be ignored in audited organisation’s annual reports, PA reports scrutinise public sector programs and services in detail. That is why MP3 describes PA reports as a “magnifying glass”. Further, as PA reports remain in the public domain forever, they do not only offer a point of departure for auditees wishing to make improvements but also allow stakeholders such as MPs and the public to keep track of organisational changes.

7.3.4 Reporting style, tone and language of performance audit reports

The majority of survey respondents (strongly) agreed (62.2%) that performance auditors generally use PA reports to exert pressure on auditees to move from discussion to action (see Table 17). According to auditees, this pressure emerges from PA reports’ language and tone:

“[I]t’s the tone that’s the important thing. There are different ways that you can be critical of an organisation: you can be critical of an organisation in a way that’s sure to grab a headline or you can be critical in a way that is more likely to help that organisation actually improve. And [...] it comes back to intent.” (A5)

“[I]t wasn’t a big issue but it got picked up in the media because his [AG’s] language in the report was so emotional. It’s all in the tone.” (A7)
Table 17: Usefulness of performance audit reports

<table>
<thead>
<tr>
<th>Performance audit reports…</th>
<th>Min-Max</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>( \bar{x} )</th>
<th>( \sigma )</th>
</tr>
</thead>
<tbody>
<tr>
<td>are unbiased.</td>
<td>1–5</td>
<td>1.5%</td>
<td>16.7%</td>
<td>22.7%</td>
<td>48.5%</td>
<td>10.6%</td>
<td>3.5</td>
<td>0.9</td>
</tr>
<tr>
<td>serve as a valid basis for an internal discussion.</td>
<td>1–5</td>
<td>1.5%</td>
<td>6.1%</td>
<td>7.6%</td>
<td>68.1%</td>
<td>16.7%</td>
<td>3.9</td>
<td>0.8</td>
</tr>
<tr>
<td>reach conclusions that are adequately supported by relevant facts.</td>
<td>1–5</td>
<td>1.5%</td>
<td>18.5%</td>
<td>15.3%</td>
<td>53.9%</td>
<td>10.8%</td>
<td>3.5</td>
<td>1.0</td>
</tr>
<tr>
<td>are used by auditors as an opportunity to pressure us to move from discussion to action</td>
<td>2–5</td>
<td>0.0%</td>
<td>13.6%</td>
<td>24.2%</td>
<td>54.6%</td>
<td>7.6%</td>
<td>3.6</td>
<td>0.8</td>
</tr>
<tr>
<td>are used by parliamentarians/PAEC members to hold us accountable.</td>
<td>1–5</td>
<td>4.6%</td>
<td>12.1%</td>
<td>51.5%</td>
<td>28.8%</td>
<td>3.0%</td>
<td>3.1</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Note 1: SD = strongly disagree; D = disagree; N = Neither agree nor disagree; A = agree; SA = strongly agree; \( \bar{x} \) = mean; \( \sigma \) = standard deviation

Note 2: n = 82

36 As interviews revealed, less than half of the auditees who responded to the survey questionnaire experienced parliamentary inquiries in the context of PAs. That is also why most of them decided to choose the option “neither agreed nor disagreed” when asked about MPs’ use of PA reports to hold auditees to account.
Auditees confirmed that the tone of the report reflects the intent of the AG and performance auditors (see section 8.3). It is, in fact, the tone of the PA report that influences auditees’ perceived usefulness of PAs, and in turn, motivates auditees either to implement changes or to react strategically (see Chapter 9). Because of performance auditors’ continuous negative reporting “there can be a bit of a resignation” (A12) among auditees to act upon PA findings.

As performance auditors’ overly critical reporting style often discourages auditees from taking actions, they occasionally put PA reports “in the bottom drawer” (A32) or “chuck it in the bin” (A19). The continuous negative reporting also influences auditees’ perceptions of performance auditors and affects their relationship. Several auditees emphasised that performance auditors’ overly critical reporting style has made them a caricature of what they are supposed to be. A22 explained that historically PAs were taken more seriously by auditees as PA reports have not always been critical and inflammatory:

“I remember when I first started in government you would be terrified of a disastrous audit result. Now, because you’re guaranteed a negative report irrespective of the quality of the organisation, it doesn’t hurt as much as it once did, and that’s really damaging in a governance and accountability sense […] They’re going to say it’s bad anyway.” (A22)

Resulting from constantly negative PA reports, several auditees feel that they have to be more protective of the information they provide. As opposed to auditees, journalists consider the “sharp angle” (J2) of PA reports as essential in order to underline the severity of performance inefficiencies and to lead to performance improvements. PA reports that use “hard-hitting” language and offer “scathing” (J1) criticism have higher chances of being taken seriously by auditees. The use of very strong language in PA reports, in order to attract media interest, has also been recognised by MPs, particularly opposition members. MPs usually welcome media reporting of performance issues as press coverage exerts additional pressure on auditees.

7.4 Recommendations as outcomes of performance audits

PA recommendations are regarded as a valuable tool by performance auditors and MPs to improve public performance (PAEC, 2014c; VAGO, 2015a and b). Performance auditors claim that their recommendations cannot result in performance improvements unless they are accepted and enacted by auditees (VAGO, 2014a, 2015a). When the researcher asked auditees about recommendation acceptance rates, auditees claimed to usually accept most recommendations. One significant reason for auditees’ acceptance is the longevity of recommendations as emphasised by A9:

“[A]t the end of the day the recommendation is the only thing that lives on past the report [...] Conclusions and findings are what they are. The recommendations live on beyond that.”

From auditees’ perspectives, recommendations are instruments used by performance auditors, MPs and occasionally journalists, to hold auditees accountable and to exert pressure on them. While PA findings hold auditees accountable for past events, PA recommendations are intended to improve auditees’ future activities with regards to the effective, efficient and economic provision of public services and programs (see Table 18).
Table 18: Recommendations improving audited organisations’ efficiency, effectiveness, economic performance and accountability

<table>
<thead>
<tr>
<th>Purpose of improvement:</th>
<th>Sample recommendations:</th>
<th>Source:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhancing accountability</td>
<td>When reviewing its operations and effectiveness in 2012, the Committee of Food Regulators should definitively assign accountability for the success of the strategic plan and for agency-specific actions to support the strategic plan.</td>
<td>VAGO (2012b, p. 25)</td>
</tr>
<tr>
<td>Improving economy</td>
<td>That the Department of Transport, Planning and Local Infrastructure [...] identifies back office functions most suitable for shared services and the potential cost savings and other benefits that could result from these initiatives.</td>
<td>VAGO (2014c, p. 24)</td>
</tr>
<tr>
<td>Improving effectiveness</td>
<td>That the Department of Health: [...] identifies options for health services to effectively and appropriately share relevant patient information by developing a secure data exchange or messaging network.</td>
<td>VAGO (2013b, p. 49)</td>
</tr>
<tr>
<td>Improving efficiency</td>
<td>The Department of Health, in consultation with health services, should improve the measures it uses to assess health service energy efficiency performance</td>
<td>VAGO (2012c, p. 16)</td>
</tr>
</tbody>
</table>

As auditees’ actions upon recommendations are closely monitored by other stakeholders, auditees assert that regardless of their usefulness and feasibility, recommendations must be accepted as they are an “unspoken rule” (A4):

“Recommendation pretty much means that if you don’t do it, you’ll be hung out to dry if anything goes wrong. So, it’s not really a recommendation. It’s a requirement.” (A25)

Such assertions give the impression that auditees take recommendations seriously. This is, however, not always the case as auditees’ actions upon recommendations are dependent on their perceived usefulness.

7.4.1 Perceived usefulness of recommendations

Auditees only commit to act on PA recommendations if they are perceived as useful and achievable. Table 19 illustrates that survey respondents hold relatively positive perceptions about the contribution of recommendations. More than 75% of survey respondents share the opinion that recommendations usually lead to performance improvement. Auditees’ favourable perceptions were further highlighted in interviews, in which several auditees contended to be generally satisfied with the quality of recommendations by describing them as “enlightening” (A21), “reasonable” (A1, A4), “useful” (A22) and “practical” (A24). However, some auditees hold controversial opinions. More than 40% of survey participants question the practicality of recommendations (see Table 19). They perceive them to be theoretically useful but difficult to apply. Contrasting opinions were provided by more than 36% of survey respondents, who (strongly) disagreed with recommendations being more useful in theory than in practice. Demonstrated by a standard deviation of 1.2, surveyed auditees hold different perceptions.
Table 19: Usefulness and effects of PA recommendations

<table>
<thead>
<tr>
<th>Recommendations made by auditors…</th>
<th>Min-Max</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>̄x</th>
<th>σ</th>
</tr>
</thead>
<tbody>
<tr>
<td>usually result in performance improvements of our organisations.</td>
<td>1–5</td>
<td>1.5%</td>
<td>13.6%</td>
<td>9.1%</td>
<td>66.7%</td>
<td>9.1%</td>
<td>3.7</td>
<td>0.9</td>
</tr>
<tr>
<td>generally reach the source of the problem.</td>
<td>1–5</td>
<td>56.1%</td>
<td>9.1%</td>
<td>16.7%</td>
<td>15.1%</td>
<td>3.0%</td>
<td>3.5</td>
<td>1.0</td>
</tr>
<tr>
<td>are often theoretically useful but difficult to apply.</td>
<td>1–5</td>
<td>6.1%</td>
<td>30.3%</td>
<td>22.7%</td>
<td>25.8%</td>
<td>15.1%</td>
<td>3.1</td>
<td>1.2</td>
</tr>
<tr>
<td>have stronger effects on our organisation when auditors consult us before recommendations are developed.</td>
<td>3–5</td>
<td>0.0%</td>
<td>0.0%</td>
<td>1.5%</td>
<td>43.9%</td>
<td>54.6%</td>
<td>4.5</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Note 1: SD = strongly disagree; D = disagree; N = Neither agree nor disagree; A = agree; SA = strongly agree; ̄x = mean; σ = standard deviation

Note 2: n = 82
From interviews, the researcher found that the majority of those perceiving recommendations to be difficult to apply in practice are local government auditees. Several local government auditees questioned the general materiality and feasibility of recommendations claiming that “there is no one on this planet that can do that thing that they’re recommending” (A22). Several auditees also expressed their frustration with recommended changes arguing that recommendations addressing policy issues do not lead to desired outcomes of PAs.

It became evident that how auditees perceive the usefulness of recommendations is dependent on the audited organisation’s culture and attitude towards PAs. State government auditees assert that

“it is the culture of the organisations being audited that is really important […] If you see performance auditing as an opportunity for improvement you view that [recommendation] very differently.” (A2)

Performance auditors are aware that auditees only accept and implement recommendations if they consider PAs as useful (VAGO, 2012a). They are more likely to perceive recommendations as feasible and useful if their organisation supports the pillars of PA activities, which are comprised of scrutiny, accountability and performance improvement. If auditees’ culture towards PAs is positive, they view recommendations as a value-adding tool:

“Our general view is we take them as an improvement opportunity, so we take them as an opportunity to provide us some advice on how we might be able to do things better. So that’s always been our sort of culture towards it.” (A17)

“I’m very supportive of having a performance audit function. I’m supportive of agencies, including ourselves being held accountable. And it’s very useful to have external scrutiny of our own processes and recommendations to improve performance.” (A28)

When probed as to what auditees consider as good culture, it was stated that good culture implies welcoming the process of being reviewed, “to feel comfortable with being tested and audited” (A15) and to “feel encouraged when […] someone’s auditing” (A20) while “[t]rying to get the best out of it” (A14). Another local government auditee stated that PA recommendations and PAs in general “are useful if you look at them in the right spirit” (A23). In fact, according to auditees embracing PA recommendations as useful performance improvement tool shows that organisations are mature entities that demonstrate to be willing to learn and improve. Auditees generally perceive PA recommendations as valuable if they suggest something new in regard to their organisations’ performance. Hence, it often is the learning aspect that encourages auditees to perceive PA recommendations as useful. However, if organisations or parts of organisations simply “don’t like being audited” (A17), they are more likely to adopt an adversarial approach. If that is the case, auditees often act strategically as explained in more detail in chapter 9.

7.4.2 Targeted and whole-of-government recommendations

Auditees, who claim that the implementation of recommendations does not always result in performance improvements, reasoned in interviews that recommendations are sometimes “a bit aloof” (A14). Auditees generally perceive specific recommendations on particular organisations, programs, services or systems to be useful as those recommendations are focused on the requirements of a particular organisation, program, service or system. However, recommendations resulting from whole-of-government PAs, so-called whole-of-government recommendations, are generally non-specific, vague, and untargeted and therefore are not seen as leading to performance improvements: “that can be really difficult if the recommendations
are too vague or too specific even... on either end of that scale [...] responding to that is very tricky” (A9).

Whole-of-government recommendations are often not suitable for all organisations involved. Particularly local government auditees who undergo sector-wide PAs based on a sample of councils underlined the difficulty of dealing with whole-of-government recommendations. They complained that in formulating recommendations, performance auditors often fail to recognise the diversity of the 79 councils in Victoria in terms of size, available resources and service provision. Consequently, local government auditees occasionally ignore recommendations as they do not regard them as applicable to their individual council (see Chapter 9). Another root cause of recommendations perceived to be of marginal relevance or practicability is performance auditors’ limited experience and understanding of the activities of local government and its operational environment: “where there’s a weakness I think is that they actually don’t know the business very well. They don’t know local government business” (A16). Interviewees argued that because of performance auditors’ insufficient understanding, they often ask inappropriate or irrelevant questions, “miss the main points they should be looking into” (A16) and target the wrong councils.

7.4.3 Low-level and strategic recommendations

In the past, performance auditors have often made recommendations that were perceived by auditees to be “low-level” (A9), meaning that recommendations did not reach the source of the problem, were short-term oriented and operational rather than strategic. Survey responses show that more than 65% of auditees believe that recommendations do not target the source of the problem (see Table 19). Low-level recommendations often only represent the general opinion of performance auditors and are not grounded in a comprehensive examination of organisations’ issues and weaknesses and the external factors causing them. According to auditees, this is often the reason why those low-level recommendations only lead to incremental performance improvements. When probed what auditees consider as low-level recommendations, some participants provided examples of formulations that indicate the low quality and usefulness of recommendations (see also VAGO, 2015f, 2015g, 2015h):

- review and update of records to align with better practice;
- provision of strategic leadership and better guidance;
- review of guidance material and evaluation of its uptake and usefulness.

With regards to what auditees term low-level recommendations, MPs expressed concerns that performance auditors sometimes make recommendations for the sake of making recommendations rather than ensuring that those recommendations are of significant value and have practical relevance for auditees’ daily operations. Low-level recommendations do not have the desired effect, whereas more strategic recommendations proved to be more useful in the past as they have led to significant positive change (see Chapter 9). It is strategic recommendations that auditees assert they can work best with:

“[I]f the recommendations are really low-level and detailed, the chances are that they will not have a huge impact, whereas if they’re more strategy-focussed on a higher level then I think there’s a better chance of having an impact and there’s a better chance of agencies being able to work meaningfully with them.” (A9)

Strategic recommendations have been described as detailed in planning but flexible in implementation. With regards to strategic recommendations reference has been made to a PA on Occupational Violence Against Healthcare Workers. The following two recommendations
pointed at by an interviewee, provide insights into what auditees consider as strategic recommendations (VAGO, 2015e, p. 34):

“That health services and Ambulance Victoria build on, or develop a comprehensive and tiered occupational violence training program, that is tailored to need, delivered as a refresher on a regular basis, delivered flexibly, and reviewed for effectiveness.”

“That health services develop, and Ambulance Victoria enhances existing, investigation training and procedures – including root cause analysis – and undertake compliance monitoring in relation to investigative practices.”

From the review of PA recommendations listed in analysed reports the researcher concludes that strategic recommendations address the long-term objectives of government programs and procedures and do not only address public sector organisations’ day-to-day operations. However, strategic recommendations have sometimes been perceived as illusionary by auditees and MPs as they have suggested, for instance, the restructuring of systems (e.g. performance measurement systems, infrastructure systems etc.) for which no funding was available. Recommendations that require large investments that are often not available are perceived as unfeasible:

“[I]t is not good recommending processes that will cost the department 100 million dollars unless the government is prepared to say, ‘here’s another 100 million dollars to do it.’” (MP3)

From MPs’ perspectives, for recommendations to have impact, it is important that what is suggested is practical, implementable and in accordance with the resourcing framework within which auditees have to operate.

7.4.4 Discussing performance audit recommendations

Auditees emphasise the importance of having discussions with performance auditors about recommendations in order to make sure they are achievable and implementable. This confirms findings from the survey questionnaire, in which 98.5% of respondents agree (43.9%) and strongly agree (54.6%) that recommendations have stronger effects on their organisations when performance auditors consult auditees before making recommendations (see Table 19). While state government auditees are usually afforded the opportunity to do so, claiming that performance auditors are “always open for discussion” (A2), local government auditees argued that their attempts to discuss recommendations are often ignored, although VAGO claims in its PA practice statement that auditees are given an opportunity to provide feedback (VAGO, 2017c). According to state government auditees, the intent of such negotiations is not to influence the nature of the recommendations, but rather to emphasise and/or deemphasise elements of recommendations and to ultimately improve recommendations so that they add value to audited organisations:

“[T]hat’s part of the end of the audit process to say ‘well, if you recommend that it doesn’t make sense’ or ‘we’re actually not going to be able to respond to that but if you recommend this then it’s something that we think makes sense and we accept the findings.’” (A5)

“[I]f what they recommended is not practical in the coalface [...] they can’t be implemented, we’d explain, ‘well, if you change it slightly, we could possibly work with it.’” (A33)
According to state government auditee performance auditors are usually willing to modify recommendations when discussions are held. Such discussions between auditees and auditors are crucial as underlined by A9: “[...] if you commit to a recommendation and it’s not a good recommendation we end up in a lot of pain”. According to state government auditees it is better to have conversations with performance auditors regarding recommendations at an early stage. Nevertheless, although performance auditors claim to consult auditees (VAGO, 2009, 2015a, 2015b), several interviewed auditees, particularly local government auditees, reported their experience that performance auditors took no note of their comments and that issues discussed were ignored. Instead, over time, performance auditors kept making the same recommendations, not recognising that auditees did not have the resources and capabilities to commit to those recommendations.

7.4.5 Ripple effect

Due to the large scale of public sector organisations in Victoria, VAGO acknowledges that it does not have capacity to conduct PAs on each organisation annually or more frequently. Nevertheless, to enhance the impact of PAs, VAGO encourages organisations that have not been the target of PAs and therefore not received specific recommendations, to review published PA reports to “find recommendations or better practice to [...] improve their performance” (VAGO, 2014b, p. 5). VAGO refers to this as the ripple effect that intends to disseminate PA findings beyond the immediate subject(s) of PAs (VAGO, 2014b).

In parliamentary hearings held in 2014, the AG at that time referred to the ripple effect as the process of recommendations impacting on the actions and behaviour of other organisations (PAEC, 2014c). Performance auditors observed that several organisations carried out self-assessments based on tabled PA reports and implemented changes despite not being a direct subject of those PAs (VAGO, 2014b). Following VAGO, such impacts of the ripple effect are encouraging as they demonstrate the reach of PAs (VAGO, 2013a). The ripple effect has demonstrated that it can “promote continuous improvement and [to] strengthen the accountability and performance of the public sector” (VAGO, 2014b, p. 15). That the ripple effect has impact was also emphasised by auditees. Various auditees contend that they often look at PA reports on other organisations that deliver similar programs and services. The rationale behind this is that auditees are aware of the likelihood to become the target of future PAs:

“[t]’s not just when they’re [VAGO] auditing us, but when they’re auditing other councils, I look to see what they’re saying and try to implement them as best practice here, because one day, they will come looking here. That’s the philosophy I’ve got. [...] I do it on the front foot – will be proactive anyway and say, ‘well, what relevance does this VAGO report have to what we do here?’ (A16)

Auditees claimed to have a general interest in acting upon recommendations despite not being directly involved in the audit in order to “mitigate the risk of being caught out by VAGO” (A29). The ripple effect therefore encourages auditees to take preventive actions. Several state government auditees claimed to always review PA reports relating to other organisations to evaluate whether recommendations apply to them:

“[J]ust because you were not involved in performance audits doesn’t mean that you’re not dealing with the same issues. So, we have to look at recommendations and if we think it is relevant for ourselves then we do it.” (A5)
Some auditees reported that the departments’ audit committee expect them to review PA reports and to act upon listed recommendations. As demonstrated in section 6.2, this is part of the managerial accountability mechanism exercised by internal audit committees:

“[O]ur audit committee requires us to basically look at [...] every performance audit tabled whether the department is involved or not. And if there is a whole-of-government recommendation, then we are supposed to respond to that.” (A9)

An interviewed internal audit committee member welcomed the likely positive impact of the ripple effect, his/her declared approach being to ask not only “what happened when they [performance auditors] investigated this?” but also “what if that [the PA] were to happen in here? How would that impact us? What if we were tested on that? Would we stand up?” (A20). That the ripple effect has significant impact was also confirmed by a state government auditee who experienced PAs that the organisation was not directly involved in to have been more useful than PAs, which the organisation was a direct target of:

“[I]t’s a bit sad that an audit that we weren’t in scope for was very, very valuable, and an audit that we were in scope for wasn’t. [...] [E]ven though we weren’t in scope, I think it gave us an opportunity to review operations and make a couple of changes.” (A29)

It was concluded that PAs drive better performance and lead to better practice in audited organisations even if those organisations are not audited. It is, in fact, the risk of being audited that impacts on auditees’ behaviour.

7.4.6 Follow-up audits by performance auditors

VAGO performance auditors occasionally conduct follow-up audits in order to examine if and how auditees have responded to recommendations (VAGO, 2015a and b, 2017c). For MPs and performance auditors, follow-ups constitute an important part of the public accountability framework as they enhance the accountability of auditees for their responses to recommendations (PAEC, 2014a; VAGO, 2015a and b). MPs consider VAGO follow-ups as highly relevant, particularly because over many years a range of PAs constantly led to the same findings and identified the same deficiencies. According to MPs it is auditees’ predisposition to ignore recommendations and their assumption that performance auditors will not return that triggers MPs’ perceived usefulness of VAGO follow-up audits:

“It’s almost like a risk-reward kind of thing. Maybe from their [auditees’] perspective they might be thinking ‘how likely is it that VAGO will come back and do a follow-up audit?’” (MP4)

“We’ve got to rely on the third party, the Auditor-General to get back in there and follow up [...]” (MP2)

MPs value VAGO follow-up audits so highly because they “close the accountability loop on past recommendations” (PAEC, 2014a, p. 14) and put auditees under pressure to act upon recommendations. In order to enhance auditees’ accountability and to encourage the timelier implementation, VAGO assessed auditees implementation actions to recommendations made in 2012/13 and 2013/14. As part of follow-up audits, in 2015, VAGO published Auditees’ Responses to Performance Audit Recommendations 2012–13 that disclose the extent to which auditees responded to recommendations (VAGO, 2015a). The report identified high recommendation acceptance rates. It was, however, noted that many responses show inconsistencies between actions and the completion status. Further, several organisations took months to commence work to address recommendations (VAGO, 2015a).
Later in 2015, VAGO published a second report, *Auditees’ Responses to Performance Audit Recommendations 2012–13 and 2013–14*. The report focuses on organisations subject to PA recommendations in 2013/14 and those with outstanding recommendations from 2012/13 (VAGO, 2015b). Audited organisations still showed inconsistencies between the actions taken, the completion status and the time frame given (VAGO, 2015a and b). Table 20 illustrates the number of recommendations made between 2009/10 and 2015/16. While no information about the recommendation acceptance rate could be obtained for the financial years (FYs) of 2009/10, 2010/11 and 2011/12, Appendix 5 lists acceptance rates for the FYs of 2012/13 and 2013/14. Reports further provided information on the acceptance rate for the FY of 2015/16, however, no information could be found on how many recommendations were only partially accepted or rejected. A partially accepted recommendation is one where auditees did not accept all recommendations, or where they accepted the intent but preferred an alternative method to achieving them (VAGO, 2015b). Auditees accepted 94% of recommended actions and partially accepted the remainder (see Appendix 5). As at September 2014, of the 411 recommended actions (VAGO, 2015a)

- 60% were completed;
- 11% were substantially completed;
- 27% were partially completed; and
- 2% had no action.  

According to VAGO, the relatively high completion rate (including substantial and partial completion) indicates recommendations’ value in driving change (VAGO, 2015a). Auditees who experienced PAs in 2013/14 fully accepted 96% of recommendations and partially accepted 3%. Two recommendations were no longer relevant following organisations’ structural changes (VAGO, 2015b). VAGO (2015b) provided evidence for follow-up audits being effective in encouraging auditees to change their acceptance of recommendations. It was, for example, stated that a local government council “has now accepted two recommendations that they only partially accepted last year” (VAGO, 2015b, p. 7). Another example demonstrated that because of VAGO’s follow-up, a state government organisation accepted a recommendation which it initially only partially accepted. These positive outcomes, according to VAGO, demonstrate the value of follow-up inquiries.

Since an examination of recommendation implementation rates alone does not allow for a comprehensive analysis of the perceived usefulness of follow-up audits, in the survey the researcher asked auditees whether they regard follow-ups as a performance improvement tool. Survey results show that while a total of 83.3% of respondents (strongly) agreed with follow-up audits encouraging auditees to respond to recommendations, fewer respondents (66.1%) hold the view that VAGO’s follow-ups strengthen the overall effects of PAs (see Table 20).

### Table 20: VAGO follow-up inquiries

<table>
<thead>
<tr>
<th>Follow-up audits…</th>
<th>Min-Max</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>x̄</th>
<th>σ</th>
</tr>
</thead>
<tbody>
<tr>
<td>encourage us to respond to recommendations made by auditors.</td>
<td>2–5</td>
<td>0.0%</td>
<td>9.1%</td>
<td>7.6%</td>
<td>72.7%</td>
<td>10.6%</td>
<td>3.9</td>
<td>0.7</td>
</tr>
</tbody>
</table>

37 Partial completion implies that work to address the recommendation is underway but there is still significant work (e.g. 50%) to complete. Substantial completion indicates that most the work to close off the action (e.g. 75%) is complete (VAGO, 2015a).
Note 1: SD = strongly disagree; D = disagree; N = Neither agree nor disagree; A = agree; SA = strongly agree; 
\bar{x} = mean; \sigma = standard deviation

Note 2: n = 82

Hence, it appears that although follow-ups may lead to higher acceptance rates, they do not necessarily have such positive impacts since accepted recommendations may not be acted upon. Local government auditees explained that follow-ups are not always as effective as one would think because they are a survey-based self-assessment. VAGO follow-up surveys require auditees to confirm that all recommendations have been implemented. They do not formally assess how and to what extent recommendations have been implemented. Usually, after auditees filled in the survey, they do not hear back from performance auditors. Hence, follow-ups do not always have the desired effects due to their informal character.

As opposed to local government auditees, state government auditees explained that sometimes performance auditors follow up on auditees’ implementation actions on site (at the audited organisation), whereas at other times they request supplementary information via the survey tool. It appears that performance auditors use different follow-up approaches for different government levels. Survey data has shown that most survey respondents who (strongly) disagree with follow-ups strengthening the overall effect of PAs are local government auditees. Hence, it can be concluded that VAGO’s survey-based approach predominantly used when following up on PAs on local government organisations, is not considered as useful.

Similarly to local government auditees, state government auditees expressed their concerns about the usefulness of automated survey follow-ups. Some argued that it would be of real benefit if performance auditors came back for follow-ups in person. Auditees also claimed that follow-up audits are sometimes controversial. One reason for this is that in situations, where auditees disagreed with recommendations in the first place, performance auditors conducted hard-hitting follow-up investigations:

“There have been occasions where we haven’t accepted their recommendations and then they’ve beaten us up in the follow-up for not implementing recommendations, which we haven’t agreed with.” (A12)

Under such circumstances follow-up inquiries are not useful as auditees have had their reasons for disagreeing on recommendations made in the course of the initial PA. One auditee stated that the effect that follow-ups have is “relabelling old wine in new bottles” (A33). Interviewees further added that changing the status of recommendations from disagreeing to accepting requires more than a simple follow-up investigation. Auditees suggested that performance auditors’ re-consideration of the nature of recommendations and negotiations with them would lead to more successful implementation rates.

7.5 Chapter conclusion

This chapter explored stakeholders’ interpretations of impacts and impact-facilitating factors emerging from the PA process. It was found that the auditor-auditee relationship is an impactful-enabling factor that is conditioned by trust, respect and collaboration between performance auditors and auditees. It is further conditioned by auditees’ frequency of exposure to PAs. Because local government auditees do not have the frequent exposure, they find it more troubling to be performance audited and often do not see the value in those audits.
Publicly available PA reports offer not only key stakeholders but also the public a window into the actual management of public sector operations. MPs underline the importance of PA reports being in the public domain, visible and accessible for everybody. Hence, according to MPs it not just the content of the reports that potentially facilitate PA impact, but their power to trigger and exert accountability and to create a more transparent environment. Findings from this chapter have further shown that compared to local government auditees, state government auditees are involved to a greater extent in the reporting stage. This, in turn, influences auditees’ perceptions, behaviour and actions.

If implemented, PA recommendations can have positive impact. The impact is however dependent on how feasible and useful recommendations are perceived. Auditees consider recommendations to be more valuable when they get the opportunity to discuss recommendations before the report is tabled. Moreover, it is the ripple effect that enhances the potential impacts PA recommendations have. Performance auditors and MPs consider follow-up audits as an impact-enabling factor. On the other hand, auditees’ analogy of follow-up actions being like *relabelling old wine in new bottles* demonstrates that auditees are rather sceptical about the potential of follow-ups for having positive impact. What is needed, according to auditees, is comprehensive debates and discussions with performance auditors about the kind of recommendations made in the first place.
8 Interaction-induced performance audit impact factors

8.1 Introduction

Findings presented in chapter 8 augment the findings presented in chapter 7. This chapter adds to the interpretational account of stakeholders’ definition of PA impact. The impacts and impact-facilitating factors discussed in this chapter are triggered by the interaction of different stakeholder groups populating the organisational field.

The following sections examine the effects of performance auditors’ attendance at audited organisations’ internal audit committee meetings. They further discuss the intent and culture of AGs and performance auditors and how their attitudes affect how other stakeholders view PAs and what they interpret as impact. Journalists’ attention to and impact on PA activities will then be examined. In this regard the researcher also elaborates on the media’s role as informant for other stakeholder groups in the PA network. One of those stakeholder groups is the parliament that has a legitimate interest in PAs. The effects of MPs’ follow-up inquiries and parliamentary hearings that occasionally result in political blame-gaming and affect politics, are also part of the discussion in this chapter. The chapter concludes with a summary of findings.

The institutional concepts of rationalised myths and legitimacy help the researcher to interpret auditees’, performance auditors’, MPs’ and journalists’ understanding of PA impact and factors enabling such impacts. As will be outlined in the following sub-sections, the accountability mechanism is often directly linked to impacts and facilitates them. Therefore, accountability dimensions also play an important role in analysing this study’s findings.

8.2 Performance auditors’ attendance at audited organisations’ internal audit committee meetings

In accordance with section 3.2.1.1 of the Standing Directions 2018 performance auditors cultivate their relationships with internal audit committees by regularly attending state government departments’ internal audit committee meetings (VAGO, 2010c; DTF, 2018; see section 6.2). According to VAGO (2013a, 2014b, 2015c) reports, VAGO meets twice a year with the chairs of departmental internal audit committees to share information, raise awareness of significant issues arising from PAs, to drive action on PA recommendations and improve relationships with state departments. This does not only indicate that performance auditors and state department auditees hold close relationships, but also that state government auditees frequently get the chance to communicate and discuss PA findings and recommendations with auditors:

“We have a pretty good relationship with VAGO because we see them regularly in the audit committee meetings [...] they also discuss the findings during the committee meeting. Even though they are not obliged to do that, they do that. And that works pretty well.” (A1)

VAGO performance auditors do not attend audit committee meeting as members of the committee but as observers.
Performance auditors’ attendance at internal audit committee meetings has been described by state government auditees as positive practice, as they see it to be an effective way for auditors to gain insights into departments. Their attendance helps to improve the relationship between performance auditors and state government auditees, to target organisational issues more precisely and effectively, and to make more tailored recommendations. Hence, it is not surprising that state government auditees embrace performance auditors’ attendance at internal audit committee meetings as influencing factor for performance improvement.

8.3 Intent and culture of auditors-general and performance auditors

When asked about potential impacts of PAs, interviewees frequently referred to the intent or culture of AGs and performance auditors. Elaborating on what they mean by intent and culture, auditees, MPs and journalists referred to the personalities and character traits of AGs and performance auditors. Throughout interviews it became evident that the intent and culture of AGs and performance auditors influence how PAs are conducted, whether PA reports and recommendations are material (see Chapter 7), and perceived as useful by auditees, MPs and journalists. According to auditees, how useful PAs are “comes down very much to the culture of the Auditor-General’s Office and the intent of the Auditor-General and the intent of the Auditor-General staff” (A5). In other words, depending on “who the Auditor-General is, things can be very black hat” (A29). In general, auditees hold very negative perceptions of AGs and performance auditors who are “adversarial” (A27), “aggressive”, “opinionated” (A18) and seek journalists’ attention through critical reporting on performance issues with a view to exposing auditees in the media. These qualities of AGs and performance auditors often lead to a “more fearful” (A10) relationship between auditees and performance auditors (see section 7.2).

AGs’ and performance auditors’ intent and culture further influence the relationship with MPs. MPs described their relationship with AGs and performance auditors as “pretty good”, “cooperative” (MP3), “positive” (MP4) and “trustful” (MP1). However, this has not always been the case as several AGs were identified by interviewees to have only shown little interest in communication with other stakeholders in the PA network. As observed by MPs, historically AGs and performance auditors applied a fixed view, whereby they sought to validate their hypotheses as opposed to applying an unbiased audit lens and investigating inefficiencies. The fact that AGs and their offices used to adopt biased views and had preconceived ideas of audit findings, was also confirmed by auditees: “you can tell what they’re going to find based on the assumptions that are inherent in the specification in the first place” (A22). It is therefore not surprising that auditees hold strong perceptions that performance auditors conduct PAs with pre-determined outcomes. This often results in situations where auditees find themselves to be forced to react strategically, as performance auditors led by such intentions produce reports showing controversial findings. This was particularly the case when AGs sought media attention.

8.3.1 Perceptions of Auditor-Generals’ and performance auditors’ headline-hunting attitude

According to auditees, performance auditors, who adopt a media headline-hunting attitude, are “looking for exposure in the media for their work” (A5) by “looking for the problems and really blow those out” (A17) with the motive to catch headlines.

“I have been engaged with the Auditors-General who have been very interested in terms of their own profile and the profile of their office and so headlines were quite
important to them. That makes it very difficult to have a rationale conversation.”

According to auditees, performance auditors’ ‘gotcha’ attitude increases the imperative to always need to find something. Performance auditors are often perceived to be more concerned about their media profile than about driving performance improvement, which makes it challenging for auditees to embrace PAs as an opportunity to improve their organisations’ performance:

“[P]erformance auditors seem to have adopted a kind of performance audit style, which is more about ‘gotcha, we found something that you didn’t do’, than a genuine attempt to stand back as a disinterested party and analyse what’s going on.” (A11)

Whenever performance auditors employ a headline hunting approach, auditees adopt the view of “are we making sure our practices are bullet-proof so nothing can go wrong?” instead of “how can we make things better, how can we get more output, how can we improve the outcomes for the citizens?” (A7). Hence, instead of motivating auditees to welcome recommendations, a headline-hunting style appears to result in auditees being more protective and defensive of their organisations.

Interviews revealed that journalists generally welcome the headline-hunting attitude as it provides them with many issues to report on. From journalists’ perspective, a headline-hunting approach is more effective as media exposure exerts pressure on auditees, often encouraging them to take immediate action. Journalists contended that the more negative the picture of audited organisations presented in the media, the quicker auditees are in undertaking corrections. It was argued that it is the role of performance auditors to encourage media interest and to expose performance issues to the public. As proponent of a media-attention-seeking attitude, J1 was unequivocal in his/her view:

“[T]he role of a watchdog is to be fierce. The role of a watchdog is not to be close and cosy with the organisations that are being audited. In a way, they [auditees] should be dreading getting the phone call from the Auditor-General saying, ‘We’re going to be looking at this’, because they should know that someone’s going to be coming in and going over it with a fine-tooth comb because the Auditor-General’s role is… they’re working for us, the public. It’s ultimately our tax dollars that are going to all these public systems that we’re paying for.”

Journalists generally concurred in their view that a “softly-softly” (J2), “partnership-like” (J3) and “collaborative client type relationship” (J1) between performance auditors and auditees is one that should normally invoke suspicion. They are of the opinion that a stakeholder-friendly attitude does not align with the public accountability framework. Additionally, a stakeholder focus “doesn’t have as much oomph to it as it could have” (J2). In conclusion, from journalists’ perspective “the more holding to accounts type of structure” (J2) is a preferred approach that leads to real change. As opposed to journalists, MPs who experienced PAs that “had been designed to catch headlines” (MP4) are not in favour of a headline-hunting PA approach:

“What we want from the audit office is a contribution to the improvement of the public sector. We don’t want someone who’s going to catch the mouse or write reports being critical for the sake of criticism. We want reports that will assist with the improvement.” (MP3)

With regards to AGs’ and performance auditors’ headline-hunting attitude, MPs further raised the concern that historically, performance auditors have frequently assessed and commented on politically contentious policy-related issues in order to attract media attention. Although
“the Act makes it very clear that issues of policy are a matter of Parliament, not the Auditor-General” (MP1) performance auditors have focused on policy issues that were beyond the scope of VAGO’s PA mandate. Thereby, the main purpose of PAs to improve public sector performance with regards to the three Es has often been effectively hindered. MPs clearly emphasised that they do not consider this approach to be valuable with respect to PAs’ objective to improve public performance. Instead, they voiced their support for a stakeholder-oriented culture of the audit office.

8.3.2 Perceptions of Auditor-Generals’ and performance auditors’ stakeholder-oriented attitude

A stakeholder-oriented attitude was described by interviewed auditees and MPs as one whereby performance auditors request input from other stakeholders. For instance, requesting input from auditees regarding their perceived usefulness of PA recommendations before reports are tabled has been referred to by auditees as stakeholder-oriented attitude adopted by performance auditors (see section 7.4.4). One of the reasons why MPs favour a stakeholder-oriented, also termed as “stakeholder-friendly” (MP3) approach, is that it allows for more collaboration and consultation between performance auditors and MPs with regards to the early development stages of the annual plan. According to MPs, a stakeholder-friendly approach adopted by AGs and performance auditors allows them to exert more influence over the planning stage of PAs. When describing the planning stages of the annual plan, MPs emphasised that the AG is entirely free to agree or disagree to MPs’ PA suggestions. While MPs can make suggestions regarding areas they would like performance auditors to investigate, they cannot tell them what to do:

“We can advise, we can warn, we can ask questions, we can give them ideas. We can’t compel them to do anything. We can certainly ask them ‘why are you doing that’ but we can’t tell them not to. We have no role to say ‘no, you can’t do that’.”

(MP1)

Similarly to MPs, auditees are generally more favourably disposed towards a stakeholder-oriented approach. Interviews have shown that a more co-operative attitude exhibited by performance auditors directly translates into auditees’ more positive perception of PAs. For instance, auditees referred to PAs conducted by auditors applying a stakeholder-friendly approach as “process or opportunity for improvement” (A26). Essentially, interviewed auditees explained that when performance auditors adopt a stakeholder-oriented attitude based on a consultative and constructive approach, whereby those investigated “don’t feel that they’re being labelled as guilty before you prove your innocence” (A10), auditees are more receptive to auditors’ findings (see Chapter 7). In fact, auditees argued that it is really in performance auditors’ interest to collaborate more with auditees and to work on the shaping of PAs, in order to encourage greater PA impact. Auditees further agreed that the intent of AGs and performance auditors influence the usefulness of PA reports and feasibility of recommendations (see sections 7.3 and 7.4). The benefits of the stakeholder-friendly approach are summarised by A7:

“[T]hey give you a very early look at what they’re thinking of doing and they work with you to build the scope […] not to do what they did in the past, which is just collecting all the documents they could and then trying to nail you.”

The stakeholder-oriented approach is therefore perceived to be “a much more sensible approach” (A28), whereby regular engagement and consultation with auditees takes place. A5 concludes that performance auditors have “much less of a desire to be on the front page for the
8.4 Media attention to and press coverage of performance audits

Media coverage of PA findings is significant for VAGO as it generates greater transparency around identified performance and accountability issues and puts pressure on auditees to act upon recommendations (VAGO, 2013a, 2014b). As following sections show, media interest and press coverage can not only lead to PAs, but also inform other stakeholders and facilitate impacts.

8.4.1 Media attention leading to performance audits

Document analysis has shown that performance auditors welcome immediate and ongoing media debate on PA findings (VAGO, 2010c, 2011; 2014b; 2015c). While VAGO (2013a) claims to not actively seek media attention, performance auditors are aware that their PA reports can ignite and influence the public debate on performance issues (VAGO, 2012a, 2013a, 2014b). As outlined in earlier sections, PA reports constitute the main source of information for journalists reporting about PAs. Journalists read through PA reports searching for stories that they consider to be of potential interest to the public. If PA reports have a critical tone and scrutinising reporting style, they are given “very good currency” (J2) by journalists. Additionally, sometimes members of the public, MPs or whistle-blowers from inside the government provide journalists with information and point out where to dig deeper to find critical issues:

“[T]he unique aspect of a journalist’s role is that somebody might leak you some information from inside that was never meant to be revealed in the public [...] those are where many of the best stories come from because that’s when you find out some problem that somebody’s basically trying to keep from the public eye.” (J1)

Journalists clearly emphasised that those sources of information want someone to be held to account. In response, it appears that journalists consider themselves responsible for accountability in the public sector. They further underline the importance of their role in the PA context by emphasising that their stories are “very revealing” (J1) and put auditees under pressure. Journalists further claimed that subsequently to the publication of media articles on public performance issues, PA reports were often published on topics closely related to those issues raised in media articles. As emphasised by J2, it can work both ways: “[a]n auditor general report could trigger more media reports or a lot of media reporting could probably trigger an auditor general report”.

In media articles’ potential to trigger PAs, journalists may demonstrate their power to “unleash” (J3) performance auditors. Presumptions that PA reports trigger press coverage of public performance issues, and press coverage leading to PAs have also been made by auditees. As survey results demonstrate, more than half of the respondents claim that media attention potentially leads to the initiation of PAs (see Table 21). These results were confirmed in interviews, in which auditees contended that they have no doubts about media reports being a trigger for the conduct of PAs.
8.4.2 Press coverage as facilitator for recommendation implementation

According to survey results, auditees do not necessarily feel pressured or obliged by press coverage to implement changes. In fact, a total of 59.1% of respondents (strongly) disagree with press coverage enforcing the implementation of changes (see Table 21).

Table 21: Media attention towards performance audits

<table>
<thead>
<tr>
<th>As a consequence of media interest the following occurred:</th>
<th>Min-Max</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>( \bar{x} )</th>
<th>( \sigma )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Media attention towards services provided by our organisation leads to the initiation of (a) PA(s).</td>
<td>1–5</td>
<td>4.6%</td>
<td>16.7%</td>
<td>27.3%</td>
<td>42.4%</td>
<td>9.1%</td>
<td>3.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Press coverage forces us to implement changes recommended by auditors.</td>
<td>1–4</td>
<td>21.2%</td>
<td>37.9%</td>
<td>33.3%</td>
<td>7.6%</td>
<td>0.0%</td>
<td>2.3</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Note 1: SD = strongly disagree; D = disagree; N = Neither agree nor disagree; A = agree; SA = strongly agree; \( \bar{x} \) = mean; \( \sigma \) = standard deviation

Note 2: n = 82

Those who feel obliged to implement changes if the media publicly criticises their performance (7.6%), are state government auditees who asserted in interviews that they often decide to implement changes in order to avoid MPs taking up issues reported by the media. In other words, state government auditees intend to prevent the intervention by MPs by acting upon findings raised in media articles.

8.4.3 The media as informant for parliamentarians

Once the media identifies and reports on performance issues emphasised by performance auditors in PA reports, MPs take notice and become involved, which often leads to political debate:

“If opposition members get involved, dynamics change and the whole thing becomes a political issue discussed in parliament. The result is a parliamentary debate, lots of media articles and public hearings [...] but the initiator is the media because they make sure it becomes a public issue.” (A18)

Indeed, in interviews, auditees argued that many problems identified by PAs in recent years have only raised parliamentary and public awareness because of press coverage of those issues. In this context, auditees claim that it can be very frustrating when journalists are adversarial in their reporting style just to attract readers. Often, from auditees’ perspectives, the issues on which journalists report, do not provide what auditees consider to be the true picture:

“They actually didn’t care to weigh up the truths of what they were saying. As long as they had someone telling them some dirt, they publish the dirt. They didn’t care whether the dirt was true or not.” (A20)

A33 further adds that if PA findings make it to the front page of newspapers, the issues reported “become fact because it’s the Auditor-General who published it in his report”. According to auditees, PAs can reach highly political dimensions: for example, when journalists critically
report on PA findings, MPs (particularly opposition members) focus on those, then approach performance auditors and request a PA to be conducted on these critical issues.

8.5 Parliamentarians’ interest in performance audits

Within the public accountability framework in Victoria, parliamentary activities are vital as they are often a means by which auditees are held accountable for their actions in response to PA reports (VAGO, 2013a, 2014b). Essentially, VAGO (2012a) claims that parliamentary committees are a crucial link in the public accountability framework in Victoria. VAGO (2011a, p. 24) refers to MPs’ close interest in PAs, their use of and response to PA reports as a key measure of the contribution of PA work:

“[w]hen Parliamentary committees use Auditor-General reports and services to inform its inquiries, we know that we have been relevant in informing Parliament on public sector accountability and performance.”

MPs, particularly opposition members, occasionally have an interest in exposing auditees and frequently make use of PA reports. VAGO regularly reviews parliamentary inquiries, the public debate and feedback from parliamentarians to assess the impact of PAs. For the examination of MPs’ interest in PA reports, VAGO requests feedback from MPs through an annual survey. Survey results demonstrate that MPs accessed PA reports more frequently over the years and increasingly refer to PA reports when criticising auditees’ performance (VAGO, 2014b, 2015c, 2016d).

8.5.1 Parliamentary follow-up inquiries

MPs periodically undertake follow-up inquiries into selected PAs (VAGO, 2011a, 2014a, see section 2.4.2). Such parliamentary inquiries are referred to by VAGO (2010c, p. 9) as a “crucial part of the accountability cycle” through which auditees are held accountable for either not responding or insufficiently responding to PA recommendations. It is parliament’s obligation to hold public sector organisations to account as emphasised by MP1 who referred to the parliamentary accountability mechanism as “fundamental political parliamentary role” (see section 6.3). From performance auditors’ perspective, parliamentary follow-up inquiries have substantial impacts as they reinforce the relevance of addressing outstanding recommendations (VAGO, 2010c, 2013a, 2014b, 2015c). The overall intention of parliamentary follow-up inquiries is to signal to auditees that their actions detailed in the PA report responses are subject to serious scrutiny by parliament and to pressure auditees to give greater attention to addressing the issues raised in a more timely fashion (PAEC, 2014a).

In 2014, in accordance with sections 14 and 33 of the Parliamentary Committees Act 2003, the PAEC undertook follow-ups of eight selected PA reports as “particularly large numbers of VAGO recommendations have been ignored” (MP3). For the purpose of those follow-ups, MPs reviewed auditees’ responses to PAs and requested updates from auditees on the status of implementation actions (PAEC, 2014a). One of the major findings from data provided by MPs was that responses sometimes lacked detail about specific actions auditees intended to take and the timeframe for carrying them out. Additionally, MPs found that some of the intended actions set out in auditees’ responses differed from the actions that auditees took in practice. This is generally considered to be of no consequence as long as the alternative action addresses the substance of the recommendation. However, the PAEC identified instances where organisations had taken alternative actions that only partially addressed the substance of the recommendation (PAEC, 2014a). With regards to these findings, MPs took the position that PAs resulted in an accountability loop, in which auditees were hiding between different layers.
of accountability relationships (see section 6.3) in the hope that they would not be seen to be failing to implement recommendations despite having accepted them (PAEC, 2014c, p. 22):

“All of this was part of an accountability loop. Recommendations were accepted, we came back later to have a look and see what happened and we were able to find out what was going on. Not everything that is a recommendation can be dealt with in a quick and timely way, because sometimes departments have other things to do rather than just respond to the Auditor-General’s […] recommendations. But again, that is a reason that can be explained, and that is a reason where there can be dialogue and discussion.”

In the same vein, the AG at that time commented as follows (PAEC, 2014c, p. 4):

“If the agency accepted the recommendation but it has not yet been implemented, it must have an adequate explanation which it can provide. This is the essence of an accountability framework; it is the essence of an accountability framework throughout the entire Westminster system.”

Where MPs considered that further investigation was needed, they held parliamentary hearings, where auditees were summoned to give evidence and justify their (non)actions upon recommendations (PAEC, 2012, 2014a, 2014e, 2014f, 2014i).

8.5.2 Parliamentary hearings

Parliamentary hearing transcripts provide evidence of MPs intensely scrutinising auditees’ responses to performance auditors and to extensively put them under pressure for not acting accordingly on recommended changes. The intensity of parliamentary investigations is outlined and emphasised in the following extract from a transcript of a parliamentary hearing held in 2014 (PAEC, 2014j):

“In defending the approach that is currently being adopted, is the department prepared to simply sit here and say that you just disagree with the Auditor-General’s recommendations? […] Because you keep saying, ‘Well, we have this and we have that’, but the Auditor-General’s evidence has been quite clear. I do not want to verbal VAGO, but they are saying, in the document in front of me, that the response provided by the department to the matters that have been raised in the report are in various aspects not adequate. So, are you saying that in your view they are adequate, or are you saying that you are going to amend what is happening at the moment in order to deal with the criticisms from the Auditor-General?” (PAEC, 2014j, pp. 10-1)

“I just want to tease out the comments […] where you say some work has been undertaken to address the recommendations but much work remains. […] I think it is fair to ask why that would be the case given that the audit was delivered in November 2009 and we are close enough to four and a half years on from that. I do not think it is an unreasonable expectation to imagine that most of those recommendations at least ought to have been implemented by now. Can you take us through why it is that only some work has been undertaken to address four-and-a-half-year-old recommendations and much work remains undone?” (PAEC, 2014h, p. 3)

Parliamentary hearings are generally considered by auditees as worrying and serious events and have been referred to as “the star chamber because you either sink or swim” (A29). Nevertheless, from auditees’ perspectives, parliamentary hearings constitute an “incredibly
challenging but probably useful exercise” (A9) that exert pressure on auditees to justify their (non)actions and thereby enhance accountability:

“It sorts of adds to the pressure […], it adds accountability and that you have to be sure that you got a defensible position. Because you have to be able to sit there and articulate on the record in the parliamentary transcript and say, ‘Well, we didn’t do this because…’ or ‘we took part of the action, but we didn’t have the second part, because (…)’.” (A27)

Parliamentary hearings were described by auditees as a political accountability mechanism that exerts institutional pressure along the hierarchical chain (see section 6.3):

“The way Parliament works […] effectively that would flow down through the minister. The minister would then be holding the department to account and PAEC would always say ‘well, we’re going to come back and hold more public hearings if we need to.’” (A9)

Some auditees explained that parliamentary hearings are often targets of substantial media attention which in turn attracts public interest. Parliamentary hearings are therefore substantively more serious and political than VAGO’s PA investigations as emphasised by MP4:

“We can pressure in a different way than VAGO. VAGO performance auditors can only pressure through their reports. […] If VAGO says that you, as a department, have been negligent, it’s going to end up in the newspaper. However, when committee members investigate things become more serious.”

Opposing views have also been expressed by auditees who argue that MPs do not have the power to enforce implementation actions. From their perspective, all MPs can do is to hold auditees publicly accountable and draw public and media attention to identified inefficiencies. Some claimed to not consider parliamentary hearings as useful. They admitted that as soon as the hearings are over, they usually return to their routine actions. Several auditees claimed that parliamentary hearings generally serve political purposes. More precisely, parliamentary hearings were described “as a battlefield in a political campaign” (A25), which makes auditees feel like the “ping-pong” between the opposition and government of the day: “[t]he two political parties are fighting a war above your head and using you and your staff as an issue” (A27). Auditees often view PAs as part of a political game between the government of the day and the opposition, in which “VAGO performance auditors are pushing some sort of agenda” (A19). As a matter of fact, auditees appear to consider that PAs are often used by opposition members as an accountability instrument where it suits the political interest of the opposition. These concerns expressed by auditees were confirmed by opposition members who claim that whenever a critical PA report is released, they will use that to publicly blame the government of the day.

For performance auditors, parliamentary hearings play a meaningful role to underline the significance of recommendations and to put auditees under pressure to take action upon them. In a parliamentary hearing held in 2014 the AG at that time claimed:

“[T]he point about this hearing is that these recommendations were made and the recommendations have not yet been implemented in full, certainly to my satisfaction.” (PAEC, 2014c, pp. 11-5)

MPs view their follow-up inquiries and hearings as an extension to their scrutiny role and share the view that both follow-up inquiries and hearings complement VAGO’s PA work (PAEC, 2014a). From the review and analysis of public hearing transcripts, it became clear that it is
particularly during the parliamentary hearing in which the reasons for auditees’ non-
implementation of recommendations are outlined and discussed with MPs. From auditees’
responses to MPs’ questioning, it becomes evident that auditees take the opportunity to outline
the institutional environment within which they operate and explain how it can often restrict
them in their actions to respond to performance auditors’ suggested changes.

8.6 Chapter Conclusion

Findings have shown that the intent and culture of the AG and performance auditors influence
auditees’, MPs’ and journalists’ perceptions of PA usefulness. Whether auditors intend to
improve public performance and adopt a stakeholder-oriented approach or seek to improve
their own media profile by publicly blaming auditees, appears to significantly influence the
outcomes of PAs. The headline-hunting attitude is perceived as a rather ineffective approach
by auditees and MPs as it often does not just lead to hostile relationships between auditors and
auditees, but also undermines auditees’ confidence in VAGO’s PA practice and therefore,
decreases auditees’ perceptions of the usefulness of PAs. However, from journalists’
perspectives, performance auditors’ media-orientation facilitates better PA outcomes through
the public accountability process. How stakeholders perceive the usefulness of PAs also
depends on the quality of audits, not the quantity, as well as on the focus of PAs.

Journalists’ articles are a key channel of information and serve as a strong medium through
which accountability is exerted. Lavi (1999), Kells (2011a), and Bringselius (2014)
acknowledged in earlier studies that the media potentially reinforces accountability
mechanisms. Other authors like Bovens (2006, 2010), have underlined that the media is gaining
power as an informal forum for political accountability. This has been confirmed by
interviewed MPs who claimed to occasionally blame auditees and exert pressure on them
through the media. The media as an informer and issue raiser enhances the accountability of
the public sector by making performance issues transparent and available for everyone.
Moreover, media coverage is said to have the potential to trigger the conduct of PAs. Similar
findings were made by Parker and Jacobs (2015) who discovered that media coverage of public
performance issues informs the AG about PA topics.

The pressure upon auditees to implement recommendations increases once MPs use PA reports
to hold auditees accountable. From MPs’ perspective, the actual impact of PAs lies in their
capability to hold auditees to account. It is through this accountability mechanism that
performance improvements in audited organisations can be achieved. Also, MPs and
performance auditors consider parliamentary accountability processes such as hearings or
follow-up inquiries as mechanisms that facilitate the impact of PAs. The study found that
performance auditors’ only recourse is to expose public performance issues to MPs.
9 Perceptions of organisational change and response strategies

9.1 Introduction

From the analysis of documents, survey results and interviews it became evident that auditees implemented a variety of changes recommended by performance auditors. The dimensions of those changes range from incremental to substantial. As demonstrated in the sub-sections of this chapter, some changes have been perceived as more useful than others by relevant key stakeholder groups. Addressing RQ3, this chapter investigates to what extent PAs have been perceived as useful in terms of induced changes. Auditees, as the recipients of performance auditors’ recommended changes, have reportedly experienced different types of changes that are of varying dimensions and magnitude. Depending on the type, dimension and magnitude of changes, auditees expressed different perceptions of the usefulness of those changes. Findings emerging from this study show that depending on auditees’ perceived usefulness of recommended changes, auditees have developed response strategies that range from taking preventive actions to openly rejecting recommended changes.

Supported by the theoretical NIS concepts of legitimacy, organisational change and rationalised myth, the following sections elaborate on the kinds, dimensions and magnitude of changes and stakeholders’ perceived usefulness of changes. The forthcoming section further provides auditees’ rationales and justifications for accepting, implementing or strategically reacting recommended changes.

9.2 Dimensions of changes

VAGO (2012a) considers the implementation of changes by auditees as impact. According to VAGO (2014b, 2015a, b and c) it is the induced changes resulting from PAs that contribute to substantial improvements of the economic performance of audited organisations and their efficiency and effectiveness in delivering programs and services, thereby adding value to the Victorian public sector (VAGO, 2010c, 2015c). Asking auditees about the type of experienced changes, survey participants were provided with a predefined list of organisational changes based on the researcher’s review of previous PA studies as well as analysed documents and reports. Survey responses then helped the researcher to develop and scope interview questions revolving around organisational changes. In interviews with auditees, the researcher further discovered changes not mentioned in the survey questionnaire. Figure 5 reveals that changes most often experienced were Changes in staff training and Increased budgetary allocation to the audited policy area.
In interviews, auditees emphasised that changes in staff training had significant impact. More precisely, according to A2, changes in staff training and changes in IT and accounting systems – further elaborated on below – were among “the very big changes” (A2). Changes in staff training required employees to be retrained and reauthorised and, additionally, to provide status updates on their training progress every two years. Due to the magnitude of this kind of change, it was referred to by A2 as “almost like a ground up reform, [...] a big deal”. This interviewee further added that changes in staff training have had major positive impacts on his/her organisation’s culture, the work flow between different working groups, and the reporting lines between management levels. With regards to the latter, interviewed auditees experienced improvements in accountability mechanisms between varying management levels inside the organisation. Auditees explained that after recommended changes have been acted on, they perceived their responsibilities as well as their relationships within the organisation to be defined more precisely, which in turn, allows them to structure their daily tasks, prioritise important tasks and to execute them more efficiently and effectively. Overall, performance auditors’ recommended changes regarding staff training have led to improved performance of auditees’ management practices through the allocation of direct accountability to individual auditees or to groups of auditees within the organisation.

As indicated by survey results, this study has further found that PAs impact on the allocation of government resources to public programs and services (VAGO, 2016d; see Figure 5). The PAEC (2014g) reports that occasionally more funds are allocated to certain programs and services to better cater to the public’s needs. For example, as outlined by VAGO (2016d, p. 24), in its 2016–17 Budget, the government, “[...] allocated an additional $168 million to the Roadmap for Reform package for vulnerable children and families” following a PA. Another example is the Biosecurity: Livestock PA, after which the government allocated more funds (VAGO, 2016d, p. 25): “[t]he government announced an investment of $25.6 million into the livestock and horticulture industries as part of its 2016–17 Budget (...).”

The allocation of additional resources is, however, not only related to financial resources, but also affects human resources (see Figure 5). It is not uncommon for PAs to lead to changes in human resources, whereby the number of, for instance, carers and health workers is increased.
(VAGO, 2016d). An example is the PA Access to Ambulance Services, which resulted in the government announcing “$151 million in funding to employ 340 extra ambulance staff, 240 in various regional areas, over the next five years (…)” (VAGO, 2011a, p. 11). PAs can evidently change how much funding as well as personnel, public sector organisations receive. In this regard, auditees asserted in interviews that the allocation of additional resources due to PAs significantly affects how effectively and efficiently public sector organisations provide programs and services. Hence, depending how much additional funding or human resources were allocated to public organisations, the organisational changes resulting from additional resources were either incremental or extensive.

Another kind of change that has been mentioned and underlined in survey results (see Figure 5), parliamentary documents and VAGO annual reports as well as interviews, is the change in performance reporting (PAEC, 2014c; VAGO, 2013a). In analysed documents and interviews with auditees, particular emphasis was placed on the Performance Reporting by Local Government PA that led to the implementation of a new performance reporting framework for local government councils (VAGO, 2013a). The recommended performance reporting framework shifted the focus from reporting on inputs to reporting on outputs and outcomes (Victorian Government, 2012). This allowed auditees to shift their focus from the amount of resources allocated to certain programs and services to the examination of how effectively and efficiently those resources were used for the provision of services.

The induced change in performance reporting further allowed for more transparency and accessibility of information for citizens who seek to obtain data about how much taxpayer money was spend on public sector services. In this regard, the induced change also enhanced auditees’ public accountability to citizens (see section 6.4). Interviewed auditees perceived the framework to have been particularly useful with regards to greater comparability of performance-related data among the different councils. According to auditees, the implemented change positively impacted on auditees’ ways of working by supporting them to more efficiently and effectively provide services and to improve their understanding of performance measures. In this regard, interviewed auditees spoke of learning effects that this kind of change has produced.

In documents and interviews, relevant stakeholders have also reported changes in governance as a result of PAs. In 2014, the AG (cited in PAEC, 2014d, p. 2) at that time asserted that, “there have been substantive, positive changes to governance [...]”. Auditees confirmed that PAs have impacted on how local government councils, state government departments and other public sector organisations are governed. One example referred to by interviewed MPs and auditees when asked about changes related to audited organisations’ governance, was a PA on health services, Occupational Violence Against Healthcare Workers (May 2015) (VAGO, 2016d). As a consequence of this PA, the government has delivered the following specific initiatives to tackle identified performance issues:

- Funding new services;
- improving government risk reporting;
- developing a customised 10-year Mental Health Strategy; and
- establishing a new team dedicated to the improvement of specific services (VAGO, 2016d).

As listed changes demonstrate, the PA led to a range of changes necessary to improve the governance framework of organisations subject to the PA. Accepting all recommended changes, auditees stated in their response to the AG that those changes will be treated as “organisational priority” (VAGO, 2015e, p. 47). Due to the multiplicity of induced changes, auditees perceived these changes to be intense and challenging. However, claims were made
that a “package of changes” (A30) that requires auditees to implement all suggested changes at once, is preferred over multiple individual changes that need to be adopted at different times.

Referring to changes predefined in the survey questionnaire, in interviews the researcher probed whether auditees have experienced other types of changes. Thereupon, auditees explained that they have experienced significant changes in Information Technology (IT) and changes in accounting systems (see also VAGO, 2010c, 2014b). Auditees emphasised the importance of changes in IT systems, stating that this kind of change was necessary and in fact, welcome by auditees as organisations have been “operated out of spread sheets” (A2). Therefore, this kind of change was considered as an “opportunity for reform” (A2).

Considering the adoption of new IT systems as necessary, auditees embraced performance auditors’ suggested change and implemented it accordingly although they were aware of the magnitude of the change and the associated workload.

Emphasising the importance of implementing new accounting systems recommended by performance auditors, auditees explained in interviews that new accounting systems were long overdue since previous systems were out-dated. The investment required for the new accounting system was substantial, with staff-training sessions taking several days. The change in accounting systems reportedly led to more efficient processing of transactions. Moreover, as the new system is technologically more advanced and allows for the automation of accounting processes, it further decreased the margin for error, ultimately leading to risk mitigation and a decreased likelihood of the same mistakes occurring repeatedly.

Auditees revealed that changes in IT and accounting systems were “huge” (A2) and “massive” (A19). Due to their magnitude, those changes were time-intensive, required considerable internal organisational restructuring and imposed additional workload on auditees. Nevertheless, these negative side effects were only temporary, and therefore considered as manageable by auditees. However, financial resources required to make such investments have had negative short-term effects on the budget of affected organisations. Referring to IT system changes, A2 stated: “24 million dollars for a new IT system, that is a big deal, that doesn’t happen overnight (...)”. Regardless of the costly implementation of new IT and accounting systems, auditees generally perceived those investments as “reasonable and feasible” (A1) arguing that once the investments amortised, organisations were operating more economically, efficiently and effectively.

With changes in staff training and changes in IT and accounting systems being the exceptions, from interviews it emerged that auditees generally do not perceive recommended changes as revolutionary with regards to performance improvement but instead to be useful in leading to “incremental improvements” (A18). In this regard, several interviewees expressed claims such as: “we did not have to radically change anything, we just needed to make sure that we fix up whatever their findings were” (A1).

Several local government auditees hold the view that PA work “doesn’t actually change anything within the organisation” (A19). In general, PAs do not have “any real grounding in making any real change or difference to a process” (A10). Similarly, state government auditees state that changes emerging from PAs do usually not contribute extensively to the efficiency and effectiveness with which state departments operate. Overall, according to A5 these changes have “created a bit of momentum” useful to make minor improvements but do usually not revolutionise the Victorian public sector. That most of the induced changes were not “mind-blowing” (A10) and “haven’t changed the world” (A7) was also acknowledged by A15:

“There’s nothing specifically that’s come out of performance audits that’s made such a dramatic change to our organisation. [...] There’s never been anything
that’s come out of the VAGO reports that I’ve gone, ‘Wow! That is absolutely unexpected and will change the way we do business.’ […] It doesn’t mean that you don’t learn from them and you make adjustments, and we certainly do, but it hasn’t been world-beating stuff where we completely changed our processes.” (A15)

A2 and A3 add that PAs generally give “a nudge to say ‘there is a problem there’.” From analysed reports, survey results and interviews it emerged that the dimension of recommended changes influences auditees’ perceived usefulness of those changes, and, in turn, their reactions to changes. How auditees react to recommended changes of varying dimensions is outlined in the following sections. Subsequent sections further elaborate on MPs’, performance auditors’ and journalists’ perceptions of auditees’ responses and reactions to changes.

9.3 From auditees to MPs: recommendation usefulness

Interviews with MPs have shown that they appear to be critical of whether performance auditors’ recommended changes actually lead to positive and valuable changes that verifiably improve the economic performance and lead to enhanced efficiency and effectiveness in audited organisations. MP3, for example, claims that not all recommended changes lead to valuable performance improvements:

“I would say anecdotally that 50 per cent or more of the performance audits have contributed to improvement across the public sector, but there’s probably 50 per cent that don’t.”

The interviewee further elaborated that recommended changes have not been as useful as expected because performance auditors have often had other intentions (PAEC, 2014c, d and e; VAGO, 2016d): some PAs have reportedly been designed to attract media headlines and to fuel the public debate (see sections 8.4 and 8.5), without the intent to improve audited organisations’ performance, as emphasised by MP5:

“VAGO should look at improving the efficiency and the effectiveness of public administration in Victoria. I think there is a question mark about how those [performance] audits have been conducted in terms of delivering that outcome. […] I don’t necessarily think they’ve been used well in terms of improving the efficiency and effectiveness of public administration.”

From MPs’ perspectives, performance auditors’ limited focus on the three Es, is one of the reasons for auditees’ often perceiving a limited usefulness of recommended changes, thereby leading auditees to strategically react to recommended changes (see section 9.4). Indeed, survey results provide empirical evidence for auditees perceiving the usefulness of recommended changes to be limited. When asked in the questionnaire, whether they perceive recommended changes to be useful, 13.9% of respondents disagreed that changes leading to significant performance improvements eventuated (see Table 22). The same number of respondents (13.9%) does not perceive recommended changes to improve the effectiveness with which public services and programs are delivered. Moreover, 16.9% of auditees do not perceive suggested changes to lead to more efficient processes or to the better allocation of financial resources (see section 9.2). With respect to the objectives of PAs, interviewed auditees asserted that historically PAs have not always been driven by the three Es, and have therefore not had benefit for public sector organisations, citizens and taxpayers.

“[T]he question is, has the money been spent well in the eyes of the people that the money was intended to assist? And that is, in my humble opinion, what the performance audit should be about. Is tax payers’ money being used in a way that it advances the interest of the people it was intended to assist? The question is […]
if performance audits did that [...] whereas I think auditors in the end run a bit scared.” (A11)

When asked whether changes improved organisations’ performance with regards to the three Es, A11 expressed that PAs have “not changed the organisation’s operations to the better with regards to economic performance and efficiency”. To the researcher’s statement that VAGO’s PAs intend to improve public organisations’ economic performance, efficiency and effectiveness, A22 responded: “I don’t think that’s what they do at all.” One reason for the often limited usefulness of recommended changes as perceived by auditees, is the “missing adaptability” (A40) of “suggested changes that resemble mainstream recommendations made by performance auditors (...)” (A32).

Against such contentions made by a relatively small number of auditees about PAs not being as useful as they could be, it is notable from survey responses that most auditees generally perceive recommended changes to improve organisations’ performance with regards to the three Es (see Table 2): 72.3% of respondents (strongly) agree that changes resulting from PAs improved the efficiency of public programs and processes, 60.0% of auditees (strongly) agree to the improved effectiveness in providing services and programs and more than half of the respondents (55.4%) (strongly) agree that induced changes resulting in the better allocation of financial resources. Overall, 66.2% of survey respondents claim that the changes their organisations implemented over the period under study have resulted in significant performance improvements. These findings were confirmed in interviews, in which auditees emphasised that PAs “do improve efficiency and effectiveness as a general rule” (A28). One interviewee provided an example of a useful change made to public sector traffic management. The implementation of the recommended change reportedly led to notable gains in form of commuters’ time saving in travel time. VAGO (2016d) adds that through the modification of only three sets of traffic lights, commuting citizens were able to save four minutes in morning traffic and six minutes in evening traffic.
Table 22: Usefulness of implemented changes

<table>
<thead>
<tr>
<th>Changes implemented by our organisation have led to…</th>
<th>Min-Max</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>(\bar{x})</th>
<th>(\sigma)</th>
</tr>
</thead>
<tbody>
<tr>
<td>significant improvements in the overall performance.</td>
<td>2–5</td>
<td>0.0%</td>
<td>13.9%</td>
<td>20.0%</td>
<td>60.0%</td>
<td>6.2%</td>
<td>3.8</td>
<td>0.8</td>
</tr>
<tr>
<td>more efficient programs and processes.</td>
<td>2–5</td>
<td>0.0%</td>
<td>16.9%</td>
<td>10.8%</td>
<td>61.5%</td>
<td>10.8%</td>
<td>4.0</td>
<td>0.9</td>
</tr>
<tr>
<td>more effective provision of services and programs.</td>
<td>2–5</td>
<td>0.0%</td>
<td>13.9%</td>
<td>26.2%</td>
<td>47.7%</td>
<td>12.3%</td>
<td>3.8</td>
<td>0.9</td>
</tr>
<tr>
<td>better allocation of financial resources.</td>
<td>2–5</td>
<td>0.0%</td>
<td>16.9%</td>
<td>27.7%</td>
<td>44.6%</td>
<td>10.8%</td>
<td>3.6</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Note: SD = strongly disagree; D = disagree; N = Neither agree nor disagree; A = agree; SA = strongly agree
From the engagement with local and state government auditees in interviews, the researcher noted that several auditees are not fully aware of the meaning of the terms efficiency, effectiveness and economy and do often not distinguish between them. As asserted by several auditees, the three Es “merge into one big concept, which targets performance improvement (...) nothing more, nothing less” (A11). Another auditee stated that PAs accelerate the processing and delivery of a range of public services and programs, while claiming that PAs did not lead to improvements in efficiency, effectiveness and economy. Only those auditees having extensive careers in the public sector and having experienced multiple PAs revealed in interviews their clear understanding of the definition of the meanings of the three Es and were able to relate them to changes they implemented as a consequence of PAs. Interviewed MPs claim to deliberately not use the terms efficiency, effectiveness and economy because they are used so frequently and interchangeably in publicly available reports and media articles that they have become almost meaningless.

9.4 Assessing auditee response strategies

When formally responding to performance auditors’ recommended changes, auditees are required to state whether they accept recommended changes or not, and if not, why not (VAGO, 2015b). Auditees’ responses to recommended changes constitute a key accountability mechanism through which stakeholder groups are informed about the status of acceptance and implementation of changes (VAGO, 2015a). As subsequent sections demonstrate, findings from this study reveal that auditees do not always clearly state whether they implement recommended changes. In fact, this study has found that auditees often deliberately employ strategic responses in an effort to deal with the pressure posed by performance auditors, MPs and journalists. Performance auditors and MPs disclosed that they are intrigued by the strategies auditees employ after performance auditors have left audited entities (PAEC, 2014c). Elaborated on this below, different strategic responses by auditees were identified through the researcher’s analysis of documents, survey responses and interview transcripts. It emerged that auditees’ strategic responses to recommended changes are significantly influenced and channelled by auditees’ perceived usefulness of those changes.

9.4.1 Preventive actions taken by auditees

Survey results and interviews with auditees have shown that changes are not only implemented after PAs but might indeed be adopted before performance auditors’ arrival. This, according to interview auditees is often due to the fact that PAs generally endorse changes that auditees were planning to implement anyway. Hence, as indicated by survey results tabled below (see Table 23), expected visits by performance auditors encourage auditees to take preventive actions. Standard deviation values imply that auditees’ responses vary significantly: while a total of 30.3% of respondents (strongly) disagree with increasing compliance with legislation prior to PAs, 31.9% of auditees (strongly) agree that they undertake such preventive actions. With regards to the preparation and provision of more detailed information on organisations’ performance, the researcher found that 68.2% of respondents claim to undertake preventive actions to be better prepared for the PA process, whereas 16.7% deny doing so. Responses concerning the preventive implementation of more efficient and effective practices vary significantly, with 36.3% of respondents taking respective actions and 40.9% claiming not to undertake changes prior to the commencement of PAs.

In interviews, it was confirmed by several auditees that the PA function “does influence behaviour” (A5) and occasionally triggers auditees’ preventive implementation of change:
“I think the process of performance auditing [...] does ensure that we are continually assessing our performance and improving our efficiency and processes.” (A15)

Due to the likelihood of public sector organisations, their programs or services becoming targets of PAs, auditees asserted that they often examine the organisation’s performance asking “‘what do we need to start with now’ so that by the time that’s being audited we’ve got a better story to tell” (A5). According to auditees, taking preventive actions is often useful to avoid “being nailed by performance auditors” (A27) and assists auditees to create an image that signals to performance auditors public sector organisations’ compliance with relevant rules and their delivery of high-quality services to the public. Particularly in state government departments, the undertaking of preventive actions appears to be common practice. Due to their frequent interaction with performance auditors, state government auditees have claimed to “know what they [performance auditors] are searching for and [...] make changes accordingly” before the PA commences (A11). Local government auditees, who emphasised to have limited interaction with performance auditors, explained that they “don’t get a chance to pre-prepare” (A10).

### Table 23: Preventive actions taken by auditees

<table>
<thead>
<tr>
<th>Possible visits by performance auditors lead out organisation to take preventive actions, such as:</th>
<th>Min-Max</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>$\bar{x}$</th>
<th>$\sigma$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing compliance with the laws and regulations.</td>
<td>1–5</td>
<td>3.0%</td>
<td>27.3%</td>
<td>37.9%</td>
<td>27.3%</td>
<td>4.6%</td>
<td>3.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Producing more detailed information regarding the organisation’s performance.</td>
<td>1–5</td>
<td>1.5%</td>
<td>15.2%</td>
<td>15.2%</td>
<td>57.6%</td>
<td>10.6%</td>
<td>3.6</td>
<td>0.9</td>
</tr>
<tr>
<td>Implementing more efficient and effective management practices.</td>
<td>1–5</td>
<td>12.1%</td>
<td>28.8%</td>
<td>22.7%</td>
<td>33.3%</td>
<td>3.0%</td>
<td>2.9</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Note: SD = strongly disagree; D = disagree; N = Neither agree nor disagree; A = agree; SA = strongly agree

MPs expressed concerns about auditees taking preventive action. Following interviewed MPs, auditees often provide interim solutions for performance issues before PAs commence, with the intention to avoid critical inquiries by performance auditors. Whether auditees intend to take real measures after the conduct of PAs, is however, uncertain. Therefore, instead of taking preventive actions, MPs consider it crucial for auditees to take corrective actions, whereby causes of performance issues are resolved and recurrence of those issues is prevented.

### 9.4.2 Acceptance and implementation of recommended changes

Propositions made by Hamburger (1989) and Johnston (1988) that most of the basic, low-level changes (see section 7.4.3) are generally accepted, have been confirmed by interviewed auditees:

“It’s a question of how significant the something is and in most cases, it’s not hugely significant. So, I’d say, ‘oh, yeah, we’ll do that,’ because it really doesn’t have much impact on anything.” (A33)

The acceptance of those low-level changes increases the recommendation acceptance rate and allows auditees to convey the image of acting appropriately to other stakeholder groups. MPs and performance auditors agree that the crucial condition for PAs to have positive impact in
form of performance improvement is the implementation, not the acceptance of recommended changes.

This study has further found that auditees consider performance auditors’ suggested changes as offering opportunities to request additional funding. A8 stated that performance auditors’ recommended changes often require auditees to “seek funding to undertake work that has been recommended as part of the audit”. More precisely, auditees respond to performance auditors by making the acceptance and implementation of recommended changes dependent on additional funding. A22 explained that if recommended changes require investments “you can make a case to government saying ‘not enough money’, ‘we need resources’, and other things.” Expressing the need for more funding to address identified performance issues, auditees may exert pressure on the government signalling that they will only be able to make required changes if they receive additional financial support. In that way, recommended changes provide an opportunity for auditees to put government under pressure as exemplified by A25:

“*The government can’t hide behind not funding local government enough when the auditor-general comes out and says, ‘Here’s this really big issue and here’s where the councils are at’ and it’s pretty easy to see that not all councils are able to fund their [...] needs.*”

Interestingly, although auditees do not feel accountable to VAGO performance auditors as they cannot instruct them to implement recommended changes (see section 6.2), several auditees emphasise that recommendations are mandatory and that changes must be implemented. A16, for instance, explained that the council treats the implementation of recommended changes as mandatory “because of where they’re coming from and what their head of power is”. When recommended changes are not implemented, auditees risk “making an enemy from a very powerful organisation” (A25). In this context, A33 further added that “you got to have a really good reason for not accepting the recommendation because it’s the Auditor General”. It is not unusual that performance auditors elevate issues to the political sphere, “where things turn out very bad if exposed to the public and when the media gets hold of it” (A31). Hence, according to auditees there is “strong pressure on agencies to accept the findings of the Auditor-General” (A8).

For the reasons outlined above, it is not surprising that at the receiving end of a PA report, auditees claim to generally accept recommended changes, “no matter how silly the recommendation” (A9). A33 contends that although some recommended changes are “just completely unrealistic”, auditees often accept them in order to avoid further PAs. Emphasising that the AG holds power to exert institutional pressure on auditees through his/her reporting line to parliament and his relationship to the media (see sections 6.3 and 6.4), several auditees claimed that sometimes “following the path of least resistance” (A6) by simply accepting recommended changes is the most reasonable and sustainable way of gaining and maintaining legitimacy from performance auditors. In response to probing during interviews regarding whether accepted changes have actually been actioned, auditees revealed that in the past they often ended up not implementing them. This constitutes a form of responding to recommended changes referred to as *hidden disagreement* that is often accompanied by *delaying tactics*.

### 9.4.3 Hidden disagreement and delayed implementation of changes

According to VAGO (2010c), auditees are not required to always agree to performance auditors’ recommended changes. If auditees provide reasonable justifications for their non-acceptance, performance auditors will accept that auditees “respectfully disagree with recommendations from time to time” (VAGO, 2010c, p. 8). According to interviewees, instead of expressing their opinion to auditors about recommended changes not considered as useful,
auditees often choose to “silently disagree” (A11) with suggested changes while appearing to publicly accept them. Providing justifications for their hidden disagreement with recommended changes, interviewed auditees reasoned that performance auditors’ suggested changes “don’t impact as much as you think they would” (A19). That is because suggested changes often do not target organisation-specific performance issues (see also section 7.4.2). In interviews, auditees underlined that in order to have the desired effects, induced changes need to be aligned with the cultural framework and the organisations’ objectives and work processes.

Several local government auditees complained about recommended changes being too generic and not targeting council-specific inefficiencies and performance discrepancies. A7 recalls that performance auditors often apply the “cookie cutter” to local government councils in an attempt to apply a “one-fits-all” approach by providing sector-wide recommendations for changes that all Victorian councils are supposed to follow (see section 7.4.2). As stated earlier, the problem is that those recommendations are not applicable to every council due to the differences in size, culture, structure and performance. Being “tarred with the same brush” (A23) by performance auditors affects local government auditees’ perceptions of PA usefulness and occasionally leads to auditees giving assent to the implementation of recommended changes without the intention to act on them.

Evidence emerging from analysed documents and interview transcripts has shown that in situations where auditees agree to adopt changes without intending to act on them, one strategy often employed is delaying implementation actions (VAGO, 2010b and c). The delay in implementation of recommended changes is often expressed by auditees’ responses such as “we support the recommendation […] we currently have a team reviewing the identified issues” (A12). It was observed by performance auditors that auditees sometimes did not act upon recommended changes with three and a half to four years elapsing since changes were recommended (PAEC, 2014c). That the implementation of changes is not always timely was emphasised by the AG in public hearings in 2014 (PAEC, 2014c, p. 19):

“I am detecting a string of audits […] where it seems to take a very long time for the recommendations to be brought into play.”

Given that auditees have accepted recommended changes in the first place, performance auditors expect them to either have completely actioned the changes to full extent, to have substantially completed the implementation, or at least to have good explanations in place for not having acted upon them in a timely manner. This, according to auditors and MPs, “is the essence of an accountability framework; it is the essence of an accountability framework throughout the entire Westminster system” (PAEC, 2014c, p. 4).

Auditees’ excuses for non-implementation have not always been explicit (PAEC, 2014c). As noted by MP2, auditees often claim that the PA “was very helpful, very proper” and that they “implemented things as contained in the table attached”. MPs usually rely on auditees’ assent to implement changes in line with provided timelines. As those timelines are often long, MPs “don’t sit there waiting for them to tick off” (MP2) but instead move on to the next issue, only to realise years later that auditees have taken no action to implement recommended changes. MP2 who claims to have been involved in multiple PAs and public hearings related to PAs, describes his/her negative experience with auditees giving their assent to recommended changes. This form of hidden disagreement, according to the interviewee, is a tactic commonly used, particularly among state government auditees:

“[Y]ou read the response from the secretary: ‘yes, yes, oh Thanks, it’s a marvellous report’ and they do nothing. [...] Basically, the departments were giving the fingers to the parliament and [were] nodding and then just ignoring it.” (MP2)
“We get them there as a witness and say ‘okay, this is what the Auditor-General said, this is what he ordered you to do and now, what have you done?’ And they say ‘look this is our timeline and we are going to make this and that change’ but that’s nonsense. The public servants are very good at that and I don’t want to be too critical but I’m just over it. [...] So, as you can see in their responses, it’s a very nice way of putting it [...] the department would be like ‘oh yeah, it’s just terrible, thank you so much for your help. Yes, yes, we’ll get on to all this and we’ll get on to all that’ and as soon as the door shuts and the performance auditor leaves the building, they throw the report in the bin. That was the really strong feeling I got. And so, they said ‘oh yes, yes, yes we accept the recommendation’ and in the end they couldn’t care less. [...] I shouldn’t sound so cynical but having sat through hundreds of these. I am just disgusted because as a Victorian taxpayer I am not getting value for my money.” (MP2)

MPs and journalists, who frequently review PA reports, recognised that those reports repeatedly list the same performance issues and related correcting recommendations. According to interviewed MPs and journalists this indicates that recurring issues are not resolved but are instead deferred. MP2 criticises auditees for their irresponsibility demonstrated by their inaction to solve issues repeatedly highlighted by performance auditors:

“From where I sit I’m seeing recurring themes. [...] I’m hearing the same thing over and over again. [...] You would find 8 or 10 [PA] reports that the Auditor-General has done and they are still finding massive deficiencies, quite often deficiencies of the same nature. They didn’t solve these issues over years.”

Auditees’ strategic use of hidden disagreement and delaying tactics has also been noticed by MP5, who explained that when auditees were confronted in parliamentary hearings by performance auditors and MPs inquiring “this issue was raised five years ago. What have you done about it?”, auditees’ responses were

- “the person responsible for that is no longer with us”,
- “we’ve had organisational changes”, or
- “the nature or our business has altered”.

These excuses, according to the MP, are often times too broad, unjustified and unsupported by facts. Following MPs, it is these recurrent issues that emphasise the importance of parliamentary hearings (see section 8.5.2), which publicly blame auditees for their inaction on recommended changes (PAEC, 2014b; VAGO, 2012a). In interviews, auditees argued that if they tactically delay implementation actions, recommended changes may become factually irrelevant as the government of the day may change after elections or when, for instance, a new minister is appointed. More precisely, as soon as there is a change in the government of the day, with the newly elected party pursuing a different political agenda, recommended changes are “dead and buried” (A33). Among MPs there is strong awareness that auditees occasionally tactically delay implementation actions in the hope that changes previously recommended become irrelevant:

“state department people generally outlast members of parliament and committees [...] because it’s a dynamic environment. [...] So, they very often give that assent to the recommendations but what really happens that’s the question.” (MP2)

From MPs’ perspectives, auditees view the parliament as a “temporary thing” (MP2) while they view themselves as a “permanent thing” (MP2). Seeing MPs coming and going, auditees agree to recommended changes without the intention to adopt change. Apart from employing delaying strategies, evidence has shown that as a consequence of perceiving suggested changes
to be incompatible with their organisational culture and to be of limited usefulness, auditees often decide to decouple induced changes from their daily operations.

### 9.4.4 Decoupling of recommended changes

Although interviewed auditees did not use the term *decoupling* they referred to situations where “*processes have been put in place that nobody ever made use of*” (A12). Auditees stated two main reasons for the decoupling of recommended changes from the organisations’ daily operations: one reason is based on the auditees’ assumption that if performance auditors believe that their suggested changes were implemented, they are less likely to return for follow-up audits or more PAs as asserted by A11: “[n]ormally, you can avoid endless repeat audits if the audit office thinks that you’re taking their recommendations seriously.” Closely related to this motive, another reason reported by auditees is that by pretending to be operating appropriately, auditees can avoid being publicly blamed in media articles and being summoned by MPs to appear at parliamentary hearings. With regards to the latter, A31 highlighted that “to please the Auditor-General is key because if the Auditor-General is happy, parliament is happy and we don’t need to worry.” The act of decoupling evidently legitimates auditees’ actions and prevents them from being held accountable by performance auditors, the media and parliament.

### 9.4.5 Open disagreement and resistance to change

Overall, interviews with auditees suggest that performance auditors are unlikely to tolerate auditees’ open disagreement with recommended changes. Instead, performance auditors react to auditees’ rejection of recommended changes by exerting additional pressure through drawing media attention to critical PA reports (see sections 7.3.1 and 7.3.4). While some auditees, particularly those with limited PA experience, appear to be more reluctant to disagree openly with performance auditors and instead, tend to hide their disagreement (see section 9.4.3), several interviewed auditees with extensive PA experience appear to be comfortable with openly expressing their disagree with performance auditors: “*We just couldn’t reach agreement. So, we just agree to disagree*” (A27). Nevertheless, openly disagreeing with recommended changes is considered making it more difficult for auditees to deal with performance auditors’ future investigations that are likely to increase in number and become more critical:

“*[T]here’s an unspoken risk for agencies that if they don’t align and they don’t accept the recommendations then they’re going to get more performance audits or the audits are going to become more hard-hitting.*” (A9)

In this regard, auditees expressed that they were aware that if they decide to openly disagree with recommended changes, they basically “*set themselves up to be a piñata in front of a parliamentary committee*” (A11) (see section 8.5.2). Providing reasons for their open disagreement and resistance to performance auditors’ recommended changes, several auditees claimed that although performance auditors “should be the supporter of innovation” they often prevent auditees to taking risks and thereby act as a “killer of innovation” (A7) that stifles the creativity in the public sector. Instead of making public sector programs and services more efficient, economic and effective, PAs often “*take away the speed*” (A7). Expressing doubts about PAs improving public sector performance with respect to the three Es, A22 adds that

“*performance audits have made things take longer, be harder, and really slow things down. So, in an attempt to make things more efficient, in fact, it’s heading exactly the opposite way.*"
Along with such statements, auditees emphasised that if performance auditors continue to prevent public sector organisations from being innovative and entrepreneurial, PAs are “*never going to make step change, never going to make big change for the public sector*” (A7). Moreover, with regards to resistance to change, auditees asserted that PAs occasionally enter policy areas although the AG is not authorised to comment on policy issues. In such situations, auditees emphasised that they do not hesitate to openly disagree with and resist recommended changes.

### 9.5 Chapter conclusion

Evaluating stakeholders’ perceived usefulness of changes recommended by performance auditors, this chapter has shown that varying opinions are presented among study participants with regards to induced changes leading to the enhancement of audited organisations’ effectiveness, efficiency and economic performance. While several auditees declared that PAs do positively affect public sector performance and occasionally enhance accountability, contrary opinions have also been expressed by auditees who contended that PAs usually do not achieve the aim of improving economy, efficiency and effectiveness. Another relevant finding of this study that emerged in this context is that several auditees appear to not have a clear understanding of the meaning of the terminology.

Proponents of changes leading to improvements claimed to have experienced minor as well as major changes. It was contended that minor changes generally lead to incremental improvements, whereas complex, reform-like changes have led to significant long-term performance improvements. Major changes perceived as most useful by auditees were related to staff training, IT and accounting systems. Auditees who hold negative views of the usefulness of changes leading to performance improvements explained that several induced changes have had adverse effects. These include stifling innovation and slowing down processes, with consequent dysfunctional impacts on public sector organisations. MPs further expressed their concerns about recommended changes not always being focused on the three Es. More precisely, it was argued that half of PAs do not lead to performance improvements.

Evidence has shown that *following the path of least resistance* is a strategy generally considered by auditees as a way of obtaining and maintaining legitimacy from performance auditors. More precisely, giving assent to the implementation of changes without the intention to act on them is a common strategy employed by auditees. To recommended changes not perceived as useful, auditees often respond with hidden disagreement, delaying tactics and decoupling to evoke the image of acting upon them. Such strategies allow auditees to obtain and preserve legitimacy while avoiding countless follow-up enquiries and additional PAs.

Delaying implementation actions up to the date at which political elections are held, occasionally gives auditees the opportunity to avoid the adoption of changes in situations where the newly elected government pursues a different political agenda and disregards recommended changes made previously. Further emerging from the above analysis is auditees’ strategy of making the acceptance and implementation of recommended changes dependent on additional funding. In that way, recommended changes provide an opportunity for auditees to put government under pressure.
10 Discussion and conclusion

10.1 Introduction

Chapter 10 concludes this research study. In the following sections the three RQs are revisited and it is demonstrated how corresponding findings address the research objective of this study. The overall objective of this research study was to develop a conceptual map that summarises key stakeholder groups’ interpretations of PA impact. Achieving this objective necessitated the identification and assessment of key stakeholder groups’ accountability relationships in the institutional environment of PA practice in Victoria. With the intention to contextualise the subsequent assessment of stakeholders’ interpretations of PA impacts (chapters 7, 8 and 9), chapter 6 provided insights into stakeholders’ perceived accountability relationships and, thereby, set out the conditioning context that influences auditees’ interpretations of impact.

For the investigation and examination of PA impacts, a theoretical framework of NIS as a macro theoretical perspective was chosen that embeds the selected dimensions of managerial, political and public accountability relationships. Following Guthrie and Parker’s (1999), Power’s (2003), and Jacobs’ (1998) call for examining the socially constructed PA practice in its institutional environment, this thesis viewed PA activities as an institution influenced by its key stakeholders at the field level. With the help of the theoretical concepts of legitimacy, rationalised myths and organisational change borrowed from the NIS literature, the researcher has interpreted and explained accountability relationships and PA impacts and impact-facilitating factors identified by participating key stakeholders.

Data-gathering and analysis involved the collection and examination of different sets of documents and an online survey questionnaire together with extensive in-depth interviews. To achieve the research objective, an interpretive approach was required. The employed method allowed participating key stakeholders to express their ideas in their own way and captured and preserved the richness of participants’ ideas through the use of quotations that give them a voice in the presentation of empirical findings. Findings emerging from quantitative and qualitative data were triangulated, facilitating a set of validated topics that address the RQs. The large amount of rich data has facilitated the development of a conceptual map that draws from the extensive empirical to highlight the most significant findings.

After an account is rendered with respect to how this study’s overall research objective has been addressed, this chapter continues with a summary that has three different aims. Firstly, it draws conclusions from the most significant findings presented in chapters 6, 7, 8 and 9. Secondly, it identifies and presents the contributions of this research study to the extant PA, accountability and NIS literatures and discusses their additions to and divergences from those literatures. Thirdly, it summarises implications for PA practice and policy that have emerged from the empirical findings of this study. Lastly, factors that potentially limited this research are discussed and avenues for future research are proposed.

10.2 Key findings from this research study

It was the central objective of this research study to develop a conceptual map capturing relevant key stakeholder groups’ PA impact interpretations. Based on the rich empirical evidence reflecting auditees’, performance auditors’, MPs’ and journalists’ perspectives, this study makes major contributions to the understanding of PA impacts and the factors facilitating such impacts. Most significant findings are elaborated in subsequent sections.
10.2.1 Interconnected accountability relationships in the institutional environment of performance auditing in Victoria

While PAs pursue a performance improvement function, it is the accountability mechanisms fuelled by different dimensions of accountability relationships, that facilitates it. State government auditees described the accountability mechanism to be the facilitator for enhanced efficiency, effectiveness and economic performance and thereby provide empirical evidence for contentions made by Barrett (2001), Lonsdale et al. (2011) and Barzelay (1997) who identify accountability as a vehicle for performance improvement. Journalists have reportedly observed real change to be made as a consequence of PAs exercising accountability. Perceptions provided by interviewed MPs who refer to the accountability mechanism as the crux of PAs, and journalists, who emphasise that accountability is the foundation and sine qua non for PAs to leading to positive change, and therefore, to have impact, also provide evidence for the accountability mechanism to facilitate PA impact (see also Mulgan, 1997; Sharma, 2007; Reichborn-Kjennerud, 2013a). While these findings conform to findings by Reichborn-Kjennerud and Johnsen (2018, p. 17) who conclude that “what matters when it comes to actual changes is accountability pressures”, this study goes one step further by defining the nature of impact-facilitating accountability dimensions and identifying dominant accountability relationships that facilitate the implementation of recommended changes. This study has found that some accountability relationships play a significantly more important role than others given that they have stronger influence on auditees’ implementation actions, and therefore on PA impact in form of induced changes.

The analysis of documents, survey findings and interview transcripts provided empirical evidence for the existence of managerial (e.g. Aucoin and Heintzman, 2000), public (e.g. Parker and Gould, 1999) and political (e.g. Bovens, 2010) accountability relationships between stakeholders. Two different managerial accountability relationships illustrated in Figure 6 were identified: the internal managerial accountability relationship between auditees and executives, and the internal managerial accountability relationship between auditees and internal audit committees. It emerged that managerial accountability relationships to the executive management of their organisations are regarded as highly significant by auditees. This perception held by auditees is conditioned by the fact that executive managers of public sector organisations assign accountabilities to individual auditees or groups of auditees for the implementation of performance auditors’ recommended changes. Through these assigned tasks, auditees are directly responsible for the timely and comprehensive completion of recommendation implementation activities (see Figure 7). As survey results demonstrated, it is the managerial accountability exerted by executives that is perceived as most effective by auditees in terms of performance improvements with regards to the three Es. Holding auditees directly accountable for their performance, executive managers establish a clear line of accountability within public sector organisations to which Bemelmans-Videc (2007) refers as internal managerial accountability. This line of managerial accountability between auditees and executives, as illustrated by Figure 6, is extended to the internal audit committees.

The identified managerial relationship between auditees and internal audit committees is of significant importance as auditees evidently feel accountable for reporting their recommendation implementation progress to internal audit committees. In this regard, what this study discovered is that whether, and if so, to what extent the managerial accountability relationship between auditees and internal audit committees facilitate the implementation of recommended changes (see Figure 7), depends on whether internal audit committees actively oversee and monitor auditees’ implementation actions. In other words, internal audit committees that actively exert managerial accountability by holding auditees accountable for
their performance in regard to their recommendation implementation activities, effectively facilitate PA impact. From performance auditors’ and MPs’ perspectives, probing and well-informed internal audit committees enhance auditees’ accountability for performance, i.e. managerial accountability. MPs and performance auditors even claimed that only if managerial accountability mechanisms between internal audit committees and auditees are in place, PAs can have impact in form of the adoption of recommended changes.

With regards to auditees’ relationships with performance auditors, this study has found that auditees do not feel accountable to performance auditors given that performance auditors do not hold constitutional power to enforce the implementation of PA recommendations. For this reason, auditees expressed a view that they do not feel obliged to implement recommended changes. Despite their negation of being accountable to performance auditors, auditees are aware of the AG’s and performance auditors’ power to elevate performance issues and issues resulting from auditees’ inaction on PA recommendations to higher levels in the hierarchical political accountability chain. As performance auditors directly report to parliament and are accountable to MPs, they derive a requisite informal power from their political accountability relationships with parliament (see Figure 6), of which auditees are aware. The relationship between auditees and performance auditors can therefore be described as diagonal accountability to which Bovens (2007, p. 460) refers to as “accountability in the shadow of hierarchy”.

This study has found that it is due to performance auditors’ ability to elevate identified performance issues via the political accountability chain, that auditees perceive the requirement to obtain legitimacy from performance auditors. Such findings conform to conclusions drawn by Broadbent and Laughlin (2003), Gendron et al. (2001), Mulgan (1997), English (2007), Funnel (1994) and Funnel and Cooper (1998), who refer to auditors as legitimacy sources.

Further evidence for auditees’ legitimacy-seeking behaviour was provided by survey results and interviews with auditees that demonstrated that auditees often implement changes before performance auditors commence the audit. In this regard, it needs to be emphasised that particularly state government auditees claimed to undertake preventive actions in order to give the impression of operational probity. Thereby auditees attempt to mitigate the risk of being publicly criticised by performance auditors. In contrast to state government auditees, local government representatives, however, considered that they lacked opportunity to prepare for PAs. Such statements were justified by their limited exposure to PAs, and therefore limited experience and understanding of PA activities (see section 10.2.2.2).

Auditees also seek legitimacy from performance auditors by accepting PA recommendations although they often do not have the intention to act upon them. As outlined in chapter 9, auditees employ varying strategies and tactics to make performance auditors believe that recommended changes will be implemented. By adhering to the prescriptions of the rationalised myth of PA usefulness, auditees pretend to perceive recommendations as useful by accepting them in order to convey the image of acting appropriately. Such findings underline what Meyer and Rowan (1977) outlined in their pioneering work on rationalised myths: actors conform to rationalised myths to gain legitimacy and thereby protect themselves from having their conduct questioned.
Figure 6: Stakeholders' accountability relationships in the performance audit environment
Moreover, these findings conform to conclusions drawn by Power (2003), who asserts that auditing has a legitimacy-producing function, whereby legitimacy is *imported* (see also Gendron et al., 2007). Auditees participating in this study evidently seek to *import* legitimacy through their provision of positive responses to performance auditors’ recommendations. The researcher’s conclusion that the relationship between performance auditors and auditees is based on legitimacy-seeking behaviour rather than on accountability is aligned with contentions made by Black (2008), who asserts that legitimacy is not necessarily dependent on accountability relationships and that actors may seek legitimation from relevant sources without feeling accountable to those sources. From this research study it became evident that auditees’ legitimacy-seeking behaviour enables them to perform their routine activities, avoid continuously repeating PAs and frequently being questioned by performance auditors. In conclusion, this study has found that auditees’ legitimacy-seeking behaviour is one of the rationales that facilitates auditees’ acceptance of recommended changes, even if these are often only symbolically implemented.

Against contentions made by authors of previous studies on accountability relationships (e.g. Sinclair, 1995) that political straight-line accountability relationships do not reflect what happens in practice, this study has found that auditees perceive their political accountability relationships as important. More precisely, auditees identified political accountability relationship to ministers as dominant accountability relationships in the PA context. Their perceptions are supported by statements that ministers have institutional power to exert pressure on auditees to implement recommended changes. Auditees’ perceived importance of their direct – what Sinclair (1995) coins as straight-line – political accountability relationship to ministers is reflected in survey results, which show that auditees perceive to be more accountable to ministers than to MPs and members of the PAEC.

Such claims were further substantiated through interviews with auditees from which it became evident that the institutional environment of the Westminster system defining the lines of reporting anchored in the public accountability framework, facilitates auditees’ perceptions of being predominantly accountable to ministers. This study found that with respect to the implementation of organisational change, the importance of political accountability is outstanding. Auditees emphasised that the only ones who can enforce the implementation of recommended changes are ministers to whom auditees feel politically accountable (see Figure 7). Hence, it emerges from this study that the political accountability dimension determining the relationship between auditees and ministers, facilitates the adoption of organisational changes. While auditees described their political accountability relationships to ministers as *number one* relationship arguing that ministers are the only actors who can enforce the implementation of recommendations, they also refer to the importance of their political accountability relationship to MPs, which they described as *highest standard of accountability in political terms*. Although emphasising the importance of their relationship to MPs, which is amongst others conditioned by MPs institutional power to summon auditees to appear at parliamentary hearings, auditees contend that their relationship to MPs is channelled through ministers, and therefore, constitutes an indirect accountability relationship. This is amongst others due to parliament’s incapacity to direct auditees to act on performance auditors’ recommended actions and their inability to exert control and to impose sanctions on auditees as argued by Mulgan (1997).

Further, this study reveals that in the PA context, auditees view their indirect political accountability relationship with MPs to be limited to the political term of the government of the day. This is regarded critically by MPs, who expressed to be aware of auditees considering the *parliament as a temporary thing and themselves as a permanent thing*. For the accountability framework underpinning the institutional environment of the Westminster
system, auditees’ attitude may constitute significant problems with regards to the usefulness and effectiveness of PAs for generating positive impact. From interviews it emerged that auditees often delay the implementation of recommendations with the intention that those recommendations become irrelevant if the political agenda changes due to changes in the government of the day (see also section 10.2.2.5). Based on such findings, this study concludes that the political accountability relationships between auditees and MPs are of indirect and temporary nature.

Performance auditors are politically accountable to the PAEC and through the PAEC to MPs (see Figure 6). Performance auditors’ political accountability relationship to Parliament is grounded in performance auditors’ reporting of performance issues via PA reports (see also section 10.2.2.3). Both, MPs’ perceived usefulness of PA reports as source of information and performance auditors’ perceived usefulness of parliamentary follow-ups and hearings as source of institutional pressure condition those stakeholders’ perceptions of their accountability relationships as being complementary. Given that the institutional environment of the Westminster system in Victoria does not provide performance auditors with institutional power to enforce the implementation of recommendations, it is performance auditors’ only recourse to expose performance issues to Parliament in form of PA reports. In this way, performance auditors actively channel accountability by elevating performance issues to the political sphere. This thesis has found that through this process of politicising performance issues, performance auditors also indirectly channel and enhance public accountability by informing MPs and the media and thereby assisting those stakeholder groups to publicly blame auditees and holding them accountable. Ultimately, this process leads to a better informed public, to which performance auditors feel accountable (see Figure 6).

With regards to performance auditors’ perceived public accountability relationships to citizens and taxpayers (the public), this study concludes that it is performance auditors’ rationale to foster a better understanding of the performance of the public sector among citizens and taxpayers. Interviewed journalists perceive their roles in the Victorian public sector to be aligned with those of performance auditors. The only accountability relationships journalists identified is their public accountability relationship to citizens and taxpayers. Journalists reportedly seek to fuel the public debate by reporting on critical performance issues identified and raised by performance auditors in PA reports (see Figure 7). They are aware that the performance issues they raise facilitate the political accountability mechanism, through which MPs, particularly opposition members hold auditees to account. Thus, contentions made by Bringselius (2014), Kells (2011a) and Lavi (1999) that the media reinforces the accountability mechanism is confirmed by findings in this study. Moreover, while this study also confirms claims made by Bovens (2006, 2010) that the media is gaining power as forum for political accountability, findings have further shown that the media takes on the role as facilitator for political accountability as well as public accountability.

With regards to the media’s role as facilitator of public accountability, analysed data has shown that auditees do not feel accountable to the media but consider it necessary to obtain legitimacy from the media due to journalists’ role as an issue raiser and conduit for the public opinion as referred to by Parker and Jacobs (2015) and Blume and Voigt (2007). The rationale identified by this study for auditees to obtain legitimacy from the media is that being perceived by journalists as operating appropriately helps auditees to prevent receiving attention from other stakeholders. Journalists emphasised their perceived importance of their accountability to the public. They portray themselves as managers of the public debate who release PA findings into the public domain and mediators between relevant key stakeholder groups.
It emerged from this study that auditees do not perceive to be directly accountable to the public. More precisely, although acknowledging their accountability for the spending of taxpayers’ money, auditees participating in this study claim to not feel directly accountable to citizens and taxpayers. Nevertheless, auditees expressed the desire and need to be perceived by the public as operating appropriately. Stating that it is important for them to obtain legitimacy from the public, auditees justify that their legitimacy-seeking behaviour is encouraged by the desire to be perceived by citizens as providers of high-quality public services and programs that benefit the public. A lack in legitimacy obtained from the public may result in an accountability mechanism through which auditees are held accountable by the public through their representatives, the MPs and the media (see e.g. Mulgan, 1997; Alon, 2007; Kells, 2011a; Hepworth, 1995).

The institutional environment of the Westminster system and its public sector accountability framework prescribe that performance auditors serve the needs of the public and therefore be accountable to the public (PAEC, 2010b). In the context of this study, performance auditors place great emphasis on the public accessibility of PA reports, and thus, PA findings and recommendations. VAGO’s online presentation of PA findings and its emphasis on the importance of the dissemination of PA findings and recommendations provide evidence for performance auditors’ accountability relationship with the public. Parker et al. (2018) made similar findings: the authors found that several Australian AGs, instead of relying on parliament and the media as distributors of PA reports and disseminators of PA findings and recommendations, promote the direct engagement with the public.

This research study has identified accountability relationships of managerial, public and political dimensions between relevant key stakeholders. As demonstrated earlier in this section, the analysis of documents, survey results and interview transcripts disclosed dominant accountability relationships, which were perceived as substantially important by participants, as certain dimensions of accountability relationships occasionally facilitate PA impact in form of organisational change (see section 10.2.2.6). With regard to the existence of dominant accountability relationships, this study confirms contentions previously made by Bowerman (1996) and Lonsdale (2008) that different accountability relationships exert different levels of influence depending on how stakeholders perceive the status of other stakeholder groups.

Overall, what this study has found is that in the PA context, direct accountability relationships are perceived as more significant in terms of the ability to facilitate changes in audited organisations, than accountability relationship that have been defined as being of indirect nature. These findings confirm contentions made by Mulgan (1997, p. 28) who claims that “accountability requires a direct authority relationship within which one party accounts to a person or body for the performance of tasks or functions conferred”. From such findings it becomes evident that concerns expressed by MPs gain momentum: MPs identified an accountability loop, in that auditees managed to strategically ignore many of the recommended changes performance auditors provided. According to MPs, the multiple accountability relationships present in the public sector allow auditees to employ their strategies and to hide behind the accountability mountain, the different layers of accountability relationships. When auditees perceive the accountability relationship to be indirect, less concern and relevance is given to the need to justify their performance, to act in accordance with the other stakeholder party’s needs and to meet the expectations of the other stakeholder party.

Lastly, empirical findings have made it clear that accountability relationships between relevant key stakeholder groups are interwoven and interrelated. These findings validate arguments raised by Parker and Gould (1999) and Stewart (1984), that the accountability mechanism in the public sector, which involves different stakeholder groups, stems from the complementarity
of different dimensions of accountability relationships. In this study context, auditees described themselves as managerially accountable to their executives (see Figure 6), who are accountable to ministers and through ministers to MPs. Thus, this study concludes that those managerial accountability relationships are politicised through the hierarchical chain of the Westminster system. In the final instance, MPs and journalists make sure that the public is informed of auditees’ performance. While it appears that direct managerial accountability relationships are the strongest mechanism through which public sector performance improvement can be generated, it also became clear that the political accountability relationships between stakeholders, occasionally reinforce the managerial accountability mechanism by engaging parliament and parliamentary committees that hold ministers accountable for performance-related issues.

10.2.2 The conceptual map: stakeholder interpretations of performance audit impacts and impact-facilitating factors

Exploring relevant key stakeholder groups’ impact interpretations was the primary focus of this study. Addressing RQ2 and RQ3, chapters 7, 8 and 9 offered an interpretational account of what key stakeholders interpret as PA impact and impact-facilitating factors. Identified impacts and impact-facilitating factors considered as most notable by the researcher are presented in forthcoming sub-sections. From this study, a total of five impact-facilitating factors emerged that enable PAs to have impact:

1. Intent and culture of AGs and performance auditors
2. Relationship between performance auditors and auditees
3. PA reports and recommendations
4. Stakeholder’s perceived usefulness of PAs
5. Implementation of recommended changes

In this study, the only significant impact as defined by key stakeholders, is organisational change. Figure 7 illuminates how the identified impact-facilitating factors ultimately enable PAs to lead to organisational change. As the figure shows, several impact-facilitating factors are interrelated and influence each other. The illustration reflects stakeholders’ interpretations of impact-facilitating factors emerging from the PA process (see chapter 7), impact-facilitating factors emerging from interaction with other key stakeholders (see chapter 8), and induced organisational changes (see chapter 9) and is therefore built around the findings chapters. The illustration further shows that specific accountability relationships of different dimensions (see chapter 6) have been identified as impact-facilitating factor. In following sections, the researcher offers explanations and elaborations on the conceptual map. Findings hold profound implications for PA practice and policy, which are outlined in section 10.4.

10.2.2.1 The intent and culture of Auditor-Generals and performance auditors

Findings from this study show that the intent and culture of AGs and performance auditors influence auditees’, MPs’ and journalists’ perceptions of PA usefulness and interpretations of PA impact. In interviews, study participants identified the headline-hunting attitude and stakeholder-friendly attitude as two different approaches applied by performance auditors. Depending on the adopted attitude, performance auditors’ intentions and culture towards PA practice differ, which, in turn, affects their engagement with stakeholders, their language in PA reports as well as their recommended changes (see Figure 7).

This study concludes that the culture and intent of AGs and performance auditors are important elements. Whether auditors have the intention of improving public sector organisations’ performance by adopting a stakeholder-oriented approach or seek to improve their own profile
in the media by publicly blaming auditees, significantly influences the conduct and outcomes of PAs. The headline-hunting attitude is perceived as a rather ineffective approach by auditees and MPs as it does not only lead to hostile relationships between auditors and auditees (see section 10.2.2.2), but also undermines auditees’ confidence in VAGO’s PA practice and therefore, decreases auditees’ perceived usefulness of PAs (see section 10.2.2.4). Journalists on the other hand, welcome performance auditors’ media-oriented headline-hunting approach arguing that it is performance auditors’ job to publicly expose public performance issues. Journalists’ encouragement of performance auditors to release critical PA reports is conditioned by their high levels of self-interest: critical PA reports provide journalists with relevant issues on which to report.

Journalists and auditees appear to have contradicting opinions: from auditees’ perspectives, performance auditors who adopt a stakeholder-friendly approach, whereby they intend to build better relationships with auditees and attempt to identify opportunities for improvement instead of applying the mindset of a negative audit being the inevitable outcome, produce more useful PA findings and provide recommendations that lead to positive organisational change (see section 10.2.2.6). These findings are congruent with conclusions made by Gendron et al. (2007), who argue that the role performance auditors take on significantly influences how auditees perceive PA reports and recommendations (see section 10.2.2.3) and how they react to those. Öhman (2015) and Morin and Hazgui (2016) made similar findings. The authors stated that auditees hold more positive perceptions of performance auditors who act as change agents and modernisers that encourage audited organisations to implement improvements, whereas auditees have negative perspectives about performance auditors that take the role of headline-hunters.

Morin (2003) and Morin and Hazgui (2016) refer to performance auditors who adopt a headline hunting approach seeking to publicly blame auditees via the media as punishers. Although auditees and MPs interviewed for this study did not perceive performance auditors as punishers, evidence has shown that performance auditors occasionally make use of media attention. As argued by Kells (2011a), this headline-hunting attitude, is, however, not always undesirable as press coverage has, in the past, evidently triggered auditees’ recommendation implementation actions. Findings of this study confirm such contentions: performance auditors’ approach to attract media interest cause auditees to adopt performance auditors’ recommended changes. The effect of the media was also underlined by journalists, who concluded that they consider performance auditors’ headline-hunting attitude as a requirement for PAs to lead to significant positive change in the public sector. From journalists’ perspectives, performance auditors’ media-orientation facilitates better PA outcomes through the public accountability process. While media attention per se does not improve audited organisations’ performance, its press coverage does so indirectly by channelling the public accountability mechanism. Auditees’ implementation actions are triggered by their need to obtain legitimacy from the media in order to be perceived as appropriate by parliament and the public. Hence, this study concludes that the media, as noted by Van Loocke and Put (2011), exerts political-legitimising impact.
Figure 7: Key stakeholders’ interpretations of PA impact and impact-facilitating factors

- AGs’ and performance auditors’ intent and culture
- Stakeholder-orientation/Headline-hunting approach
- Auditor-auditee relationship
- PA Scope
  - Frequency of auditees’ exposure to PAs
  - Performance auditors’ attendance at audited organisations’ internal audit committee meetings
  - Materiality of report, tone and language of report
  - Kind of recommendations (targeted/whole-of-government, low-level/strategic)
- PA report and recommendations
- Organisational change
- Auditees’ perceived PA usefulness
  - Managerial accountability relationship: auditees and executives
  - Managerial accountability relationship: auditees and internal audit committees
  - Political accountability relationship: Auditees and MPs
  - Political accountability relationship: Auditees and ministers
  - Auditees seeking legitimacy from performance auditors
  - Auditees seeking legitimacy from the media
  - Parliamentary hearings
    - Parliamentary follow-ups
    - VAGO follow-ups
    - Press coverage
    - Ripple effect

Impact
Impact-facilitating factor
This study further found that intent and culture applies on both sides: performance auditors can only make valuable contributions to audited organisations in form of suitable, practical and tailored recommendations when auditees provide relevant audit evidence, are self-disclosing and consider PAs as a valuable and useful exercise. Auditees only perceive PAs as useful if performance auditors adopt a stakeholder-friendly approach and engage with auditees in an open and honest way, which fosters positive relationships in the long term. Overall, it is concluded that the intent and culture of AGs and performance auditors have a *trickle-down effect*, which impacts on the PA process, the relationship between performance auditors and auditees, key stakeholders’ perceived usefulness of PAs, the materiality of PA reports and recommendations, and consequently, the implementation of recommended changes (see Figure 7).

### 10.2.2.2 Auditor-auditee relationship

This study offers empirical evidence for the intent and culture of AGs and performance auditors influencing the way performance auditors and auditees engage, the quality and quantity of audit information auditees provide and how auditees react to PA findings and recommendations. A stakeholder-friendly approach adopted by AGs and performance auditors evidently fosters positive relationships between auditees and performance auditors often leading to auditees providing performance auditors with required audit evidence as well as additional helpful information. This enhances the quality of PA outcomes by allowing performance auditors to form grounded judgement on audited organisations’ performance based on sufficient evidence. In turn, performance auditors’ recommendations are more targeted and tailored to the audited organisations’ needs and more compatible with audited organisations’ operations (see section 10.2.2.3). In general, auditees are more receptive to performance auditors who actively engage with auditees before, during and after the PA process and perceive their relationship to performance auditors to be built on trust, respect and honesty. Antagonistic relationships between performance auditors and auditees prevent PAs from leading to positive performance improvement.

Findings from this study have identified different levels of engagement between performance auditors and state government auditees and performance auditors and local government auditees before, during and after the PA process. State government organisations as opposed to local government councils are performance audited frequently, often with multiple PAs conducted in the same state government organisation at the same time. Because of their frequent exposure to and interaction with performance auditors, state government auditees have substantial understanding of the objectives of PAs and adopt a strong audit culture. In other words, state government auditees are familiar with undergoing PAs and used to being held to account by performance auditors. State government auditees acknowledged that they make use of the frequent engagement by discussing PA findings and recommendations with performance auditors before the final PA report is tabled (see section 10.2.2.3).

Moreover, it was found that state government auditees are occasionally involved in shaping the PA scope whereby they support performance auditors in narrowing down the focus of PAs, whereas local government auditees claim to have very limited influence – if at all – on the PA scoping procedure. Local government auditees often feel excluded from the planning of the PA process. Findings have emphasised the importance of the scoping procedure for the conduct of the PA process. In this study, the scoping has been identified as factor that facilitates impact as it influences the PA focus and thus PA findings and recommendations (see Figure 7). Effectively, the scoping of the PA affects the efficacy of PAs. Local government auditees’ perception of being eliminated from the scoping procedure does not only affect their
relationship with performance auditors but further influences their perceptions of PA usefulness (see section 10.2.2.4).

From this study it emerged that performance auditors frequently attend state government departments’ internal audit committee meetings. This, as this study has found, works satisfactorily for both auditors and auditees: auditees are made aware of organisational deficiencies, and performance auditors become familiar with and gain further insights into the state government departments’ processes and procedures. This study discovered that performance auditors’ attendance at internal audit committee meetings helps to target organisational issues more precisely and effectively and to make more suitable and tailored recommendations that are compliant with the departments’ structure and procedures and address particular needs of departments (see section 10.2.2.3). It is therefore not surprising that compared to local government auditees, state government auditees generally show less resistance to PAs and more often embrace PAs as useful performance improvement tool (see sections 10.2.2.4 and 10.2.2.5). The researcher noted that these findings contain elements of Power’s (1997, 1999) Audit Society: through their frequent interaction during and/or after PAs and their attendance at state government organisations’ internal audit committee meetings during which performance issues are openly discussed, performance auditors appear to make state government organisations more auditable. In other words, performance auditors subject to this study, construct auditability in state government organisations.

Several findings outlined above address conclusions drawn by Pierre and de Fine Licht (2019) that the modus operandi employed by performance auditors has gravitated towards a more continuous dialogue with auditees. However, as this study has shown, there appear to be variances in the engagement between performance auditors and different groups of auditees. While performance auditors’ engagement with state government auditees appears to be ongoing and embraces the pre-audit scoping procedure, evidence gathering process and post-audit discussion, the engagement with local government auditees is often limited to the communication and provision of audit information during PAs. Due to the limited engagement and communication with performance auditors, local government auditees demonstrate to be sceptical about the relationship with auditors, which affects the PA process in terms of open and honest conversations and the provision of audit evidence. Although some authors of previous studies accept auditees’ resistance and adversarial relationships between auditors and auditees as inevitable (e.g. Funnell and Wade, 2012), others argue that relationships between auditors and auditees build on mistrust may hamper the potential positive contribution of PAs (e.g. Morin, 2001; Alwardat and Benamraoui, 2014). Such assumptions were confirmed by this study: the scrutiny exerted by performance auditors is generally welcome by state government auditees, whereas local government auditees often feel called out by PAs and are more resistant to suggested changes. The researcher concludes that how much exposure auditees have to PAs, and therefore, how much engagement they have with performance auditors, affects the auditor-auditees relationship as well as the perceived usefulness of PAs (see section 10.2.2.4).

The infrequency of PAs at the local government level leads to those auditees having a limited understanding of the purpose and process of PAs although VAGO’s practice statement Performance auditing in Victoria is publicly available (see VAGO, 2017c). For instance, the researcher found that some local government auditees were not aware of PA reports being tabled in Parliament. This, in turn, has considerable influence on PAs capability to lead to positive change in the public sector (see sections 10.2.2.6).

With regards to the relationship management between performance auditors and auditees, this study concludes that AGs and performance auditors often selectively adopt a stakeholder-friendly attitude: while state government auditees experience stakeholder-friendly performance
auditors who are engaging, local government auditees perceive performance auditors to be less open. As illustrated in Figure 7, the intent and culture of AGs and performance auditors therefore clearly demonstrates to either negatively or positively affect how auditees perceive their relationships with performance auditors and whether they consider PAs as useful and recommendations as suitable and material.

10.2.2.3 PA reports and recommendations

All stakeholder groups agree that how much impact PAs have is conditioned by the nature of PA findings and recommendations summarised in PA reports. Performance auditors consider PA reports as accountability enhancing tools that foster parliamentary inquiries and public hearings and thereby support MPs in holding auditees accountable. MPs underline the importance of PA reports being in the public domain, visible to and accessible by everybody. According to MPs it not just the content of PA reports that potentially facilitate PA impact, but their power to exert accountability and to create a more transparent environment. In interviews, MPs emphasised that the specific focus is on the effectiveness, efficiency and economic performance of audited organisations. More precisely, PA reports, as described by MPs, are like magnifying glasses that zoom in on the particular performance issue, make the issue more transparent and visible for other stakeholder groups and hold those responsible for performance issues to account. Such findings are aligned with contentions made by Skærbæk and Christensen (2015) that PA reports are often utilised as a blame purification instrument by parliament and the media. Roberts and Pollitt (1994) establish that NAO’s PA reports assist MPs to discharge their accountability functions. From performance auditors’ and MPs’ perspectives, it is this accountability process facilitated by PA reports, that triggers performance improvement in audited organisations. This study has found that according to performance auditors, PA reports function as catalysts for change (see section 10.2.2.6). Therefore, performance auditors perceive PA reports to be an impact-facilitating factor that leads to the implementation of recommendations and thus triggers organisational change.

Journalists are most favourably disposed towards the critical tone of many PA reports. From journalists’ perspective, the more critical PA reports are, the more effective they are in exerting accountability and the higher are the chances of being taken up by auditees and acted on in a timely manner. However, auditees revealed different views. As a matter of fact, this study concludes that auditees, when publicly blamed through media articles covering PA report findings, often react strategically while conveying the picture of acting in accordance with what has been suggested by performance auditors (see section 10.2.2.5). While this study confirms findings by Kells (2011a) that PA reports attract significant amounts of media attention, findings from studies by, for instance, Mayne (2007), Justesen and Skærbæk (2010) and Alon (2007), that press coverage of PA reports significantly affect auditees’ recommendation implementation actions, have not been confirmed by this research project. Instead, it was found that auditees, accepting the continuously negative press coverage of their performance, became accustomed to the critical media reporting and therefore reported not feeling excessively affected and pressured by critical media articles to implement performance auditors’ recommended changes. Nevertheless, as outlined earlier, media coverage potentially triggers auditees’ adoption of performance auditors’ recommended changes (see Figure 7).

Generally, auditees who participated in the survey, consider PA reports as a valid basis for the internal discussion of performance issues and how to enhance the efficiency, effectiveness and economic performance of public sector organisations, their program or services. Referred to by Van Loocke and Put (2011) as conceptual impact, this study argues that PA reports have the capability of facilitating the long-term learning effects within audited organisations as contended by Reichborn-Kjennerud and Jønshen (2018). However, as findings from this study
clearly emphasise, the conditioning factor for PA reports to have such long-term organisational learning effects is that they are perceived as useful (see section 10.2.2.4).

According to interviewed auditees, the tone and language used by performance auditors in their reports reflect their employed approach, i.e. stakeholder-oriented or headline-hunting. As this study has shown, it is, amongst others, the tone and language, that affects auditees’ perceived usefulness of PAs (see section 10.2.2.4) and thus the likelihood of recommended changes being implemented (see section 10.2.2.5). More precisely, what this study has found is that an overly critical reporting style adopted by performance auditors often leads to auditees ignoring and disregarding PA reports. From auditees’ but also MPs’ perspectives, the continuously negative reporting style may potentially have negative effects on the accountability process, as auditees are less likely to address findings and recommendations in a report written in sensational style.

As concluded by previous studies by, for instance, Hatherly and Parker (1988) Reichborn-Kjennerud (2013a and b) and Morin (2014), whether auditees consider PA reports as a useful point of departure to implement organisational changes, depends on their perceptions of the report quality, tone and general report materiality. Whether performance auditors adopt a critical headline-hunting approach facilitated by a sensational writing style and critical tone or employ a stakeholder-oriented attitude presenting PA findings without the intention to attract media headlines, has been found to significantly affect auditees’ perceptions of PA reports and the provided recommendations. According to auditees, organisational changes recommended by performance auditors who seek to attract media attention are not as feasible and implementable as those made by auditors who actively engage with auditees (see section 10.2.2.1). Auditees and MPs agree that, how feasible, strategic, complex and useful recommended changes are, and the extent to which performance auditors are willing to engage with auditees in discussions around findings and recommendations, depends on the culture and intent of AGs and performance auditors.

Asserting that they perceive PA recommendations as instruments used by performance auditors, MPs, and occasionally journalists to hold them to account and put them under pressure to implement changes, several auditees claim that recommendations can be considered as unspoken rule. Auditees’ perception of recommendations having rule-like status stems from the fact that PA findings summarise past events, in other words, what went wrong, whereas recommendations prescribe the measures to take in the future in order to make performance improvements. Nevertheless, as this study found, perceiving recommendations as rule-like requirements does not imply that auditees consider them as useful and feasible tools to improve their organisations’ performance. In fact, this study has found that auditees’ perceived usefulness of recommended changes depends on the kind and nature of recommended changes. Auditees distinguished between different types of recommendations, i.e. targeted, whole-of-government, low-level and strategic recommendations. Whether recommendations are strategic or low-level, target a specific public sector organisation, service or program or intend to affect multiple audited organisations, their services and/or programs (whole-of-government recommendations) has a significant effect on auditees’ perceived usefulness of recommended changes and the implementation of those.

Targeted recommendations have been perceived as more useful by auditees compared to whole-of-government recommendations. One of the reasons is that targeted recommendations specifically focus on the organisation-specific operations, services and programs. In other words, targeted recommendations take into consideration the culture and environment of the audited organisation. Local government auditees emphasise the importance of recommendations being compliant to audited organisations’ culture arguing that whole-of-government recommendations fail to take into account the different sizes of councils, their
available resources and type of programs and service provided. Consequently, due to their vague and unspecific nature, whole-of-government recommendations are often perceived as unsuitable by local government auditees councils and are therefore often ignored or decoupled from councils’ daily operations (see section 10.2.2.5).

Survey and interview data have shown that auditees perceive low-level recommendations to lead to incremental performance improvements only. As opposed to low-level recommendations, strategic recommendations aim at long-term performance improvements. Auditees as well as MPs perceive strategic recommendations that take the long-term objectives of audited organisations into consideration and allow auditees to be flexible in the implementation as more useful. Auditees see more value in strategic recommendations and are, therefore, generally more inclined to adopt them. Strategic recommendations, as emphasised by auditees and MPs, have evidently led to positive change. Nevertheless, it should be noticed that the implementation costs associated with strategic changes often exceed auditees’ available resources. For this reason, MPs argue that for recommendations to be implementable, they need to be practicable and feasible with regards to required resources (see section 10.4.2).

Interviews and survey results showed that auditees perceive PA recommendations to be more useful and impactful if auditees are afforded the opportunity to discuss them with performance auditors. Such findings made strong arguments for the stakeholder-oriented attitude of performance auditors to be an impact-facilitating factor (see section 10.2.2.1). While it appears that state government auditees are provided the opportunity to comment on performance auditors’ preliminary recommendations in draft PA reports, findings reveal that local government auditees’ attempts to discuss recommended changes are often ignored by performance auditors, or they are not given the opportunity in the first place, even though VAGO’s PA practice statement states differently (see VAGO, 2017c). It is therefore not surprising that the majority of auditees questioning the materiality and practicality of PA recommendations are local government auditees. Given their frequent engagement with performance auditors, state government auditees claim to be able to influence what is reported by performance auditors. Such claims slightly differ from findings by Parker and Jacobs (2015) who conclude that auditees, according to performance auditors, only have limited influence on PA report contents. While Parker and Jacobs (2015) refer to auditees in general, this study found that there are significant differences in the level of influence state government and local government auditees exert on report contents. As emphasised earlier, performance auditors appear to be more stakeholder-oriented towards state government auditees than local government auditees. According to Pierre and de Fine Licht (2019) the continuous engagement with auditees allows auditors to gain a better overview of the organisation audited and helps them to provide more tailored recommendations.

In conclusion, the type of recommendations significantly affects auditees’ perceived usefulness of recommended changes, and therefore, their likely positive impact. Generally, auditees perceived recommendations to be more valuable and to have greater impact on the organisations’ improvement when they were given the opportunity to discuss recommendations with performance auditors. Findings from this study emphasise that it needs to be noted that only state government auditees claim to be provided with the opportunity to discuss preliminary PA findings and drafted recommendations, while local government auditees stated that they did not have influence over the PA conduct, the formulation of recommendations and drafting of PA reports.

Moreover, this study provided empirical evidence for the need to consider the PA recommendations’ acceptance critically as highlighted by authors such as Desmedt et al. (2017), Hamburger (1988) and Johnston (1988) who argue that the ratio has several drawbacks.
As this study has found, auditees frequently claim to accept performance auditors’ recommended changes. Although it should be assumed with reasonable certainty that once accepted, recommended changes will be implemented, auditees participating in this study provided a range of strategic responses that indicate non-implementation. Strategies of delaying, decoupling and open disagreement, in ascending order, have evidently been used by auditees for a range of reasons discussed below.

This study has found that from auditees’ perspectives, there is an unspoken risk for audited organisations to either be performance audited more frequently, or for PAs to become more critical and hard-hitting if auditees do not accept performance auditors’ recommended changes. As a consequence, auditees often decide to accept but delay implementation action when they do not perceive recommended changes as useful (see section 10.2.2.6). The rationale for delaying of recommendation implementation actions is that auditees expect recommended changes to become irrelevant once changes are made to the government of the day. Through delaying strategies, auditees silently disagree to performance auditors’ recommended changes without compromising their legitimacy obtained from performance auditors.

Reviewed parliamentary reports and hearing transcripts as well as interviews with MPs provided evidence for auditees delaying implementation actions for more than three and a half to four years. Similar findings were made by Barrett (2012) who referred to the possibility that if auditees do not implement recommendations in a timely manner, but delay implementation practices, recommendations are often not addressed at all. Such findings, according to MPs, re-emphasise the significance of the accountability mechanism reinforced through the political accountability relationship between auditees and MPs in form of, for instance, parliamentary hearings that exert pressure on auditees to implement changes (see Figure 7 and section 10.2.2.5). One major issue resulting from auditees’ delaying techniques is that issues identified by performance auditors are recurring given that they are not solved by auditees.

Further, findings have demonstrated that implemented changes were gradually decoupled from formal operations of audited organisations when changes were not perceived as an opportunity for improving audited organisations’ efficiency, effectiveness and economic performance. Making other key stakeholders believe that they implemented changes and integrated those changes into their daily operations, allows auditees to avoid being held politically and publicly accountable by performance auditors, MPs and journalists. While the delaying strategy leaves it open whether auditees intend to adopt recommended changes at all, the decoupling strategy evokes the image of audited organisations operating appropriately. Hence, by employing the decoupling strategy, auditees manage to avoid or minimise conflict with other stakeholder groups while maintaining traditional organisational structures and procedures auditees are most comfortable with (see e.g. Reichborn-Kjennerud, 2014a; Taut and Brauns, 2003; Meyer and Rowan, 1977, Dillard et al., 2004; Scott, 2008, 2014).

Such strategies appear to be popular among auditees participating in this study given that performance auditors, as explained by auditees, only seldomly make return visits to audited organisations to verify whether and to what extent recommended changes have been implemented. This provided further support for assertions made by Power (1997, 2003a) that auditees’ acceptance of PA recommendations often remains ceremonial. Moreover, from such findings it appears that auditees’ systematic resistance to implement performance auditors’ recommendations contributes to a wider sense of PAs in general fulfilling a ritualistic rather than substantive role in the public sector (Power, 1997).

Funnell and Wade (2012) offered empirical evidence showing that PAs can provoke reactions from auditees that take forms of defiance and resistance leading to the active ignorance of suggested changes. Also, scholars like Morin (2001) and Van der Meer (1999) found that
auditees occasionally reject performance auditors’ recommendations if those are not considered as useful. While previous studies provide limited insights into the reasons for auditees’ rejection of recommended changes, findings from this study shed light on the rationales behind auditees’ disagreement to recommended changes. From interviews with auditees, the researcher concludes that the main reason for auditees’ open disagreement with and rejection of performance auditors’ recommended changes is that some changes were perceived by auditees as hindering them from adopting an entrepreneurial approach and stifling innovation with regards to how public organisations operate and provide services. Referring to such recommendations as killer of innovation, auditees argued that such recommendations slow down public processes and the provision of programs and services instead of making them more efficient, economic and effective. Hence, recommended changes that are not perceived as useful and do not bear potential to improve the audited organisation’s performance but have reverse effects, trigger auditees’ open disagreement.

These findings confirm conclusions drawn by Power (1996, 1997, 2000) that PAs and recommended changes arising from those do not always achieve performance improvements with regard to the three Es but bear the potential for stifling organisational entrepreneurship and hindering innovation instead of fostering it. Interviewed auditees’ explanations further provide evidence for Kells’ (2011a) ‘anti-innovation critique’ of PAs, which argues that PAs sometimes reduce public sector efficiency and effectiveness.

This study concludes that in comparison to previous studies that assessed auditees’ responses to performance auditors’ changes in other country-contexts, auditees representing audited organisations in Victoria are more willing to openly disagree to and reject performance auditors’ recommended changes. Referring back to one interviewee’s comment that the Auditor-General can’t tell us what to do but our ministers can (see section 6.3) and claims made by auditees that the parliament cannot enforce the implementation of recommendations or sanction auditees, this study concludes that the institutional environment facilitates auditees’ strategic reactions. Studies by Reichborn-Kjennerud (2014a), for example, have outlined that due to the Norwegian parliament imposing sanctions on auditees, auditees implemented changes even though they did not agree to them. In contrast, findings from this study have shown that auditees do not perceive MPs to be stakeholders able to exert institutional pressure with regards to the enforcement of the implementation of recommended changes. Such findings re-emphasise that recommended changes only have desired positive impacts if they are perceived as useful by auditees (see Figure 7). In respect thereof, what this study identified is the need for comprehensive debates and discussions between auditees and performance auditors about the kind of recommendations made in the first place and the materiality and feasibility of those recommendations (see section 10.4.2).

10.2.2.4 Key stakeholders’ perceived usefulness of performance audits

Previous studies by Morin (2001, 2004), Funnell et al. (2016), Raudla et al. (2016) and Reichborn-Kjennerud (2013a, 2014a) addressing PA impacts, conclude that PAs are more likely to have positive impact on audited organisations when they are perceived as useful by auditees. Thus, auditees’ perceived usefulness of PAs has been defined as impact-facilitating factor (see also Van Loocke and Put, 2011). While prior studies refer to the perceived usefulness as impact-enabling factor, they do not clearly state what triggers PA usefulness as perceived by auditees and other stakeholder groups. This in-depth study shed light on auditees’ as well as performance auditors’, MPs’ and journalists’ perceptions of PA usefulness. As presented below, it was found that stakeholders’ perceived PA usefulness depends on a variety of factors that differ among key stakeholder groups.
This study concludes that from auditees’ perspectives, unless PA recommendations pass auditees’ usefulness assessment (see Figure 7), changes are not implemented. It was found that auditees’ perceptions of PA usefulness are dependent on their culture and attitude towards PAs. According to auditees, applying a positive culture towards PAs means that organisations demonstrate willingness and encouragement to improve their performance and to consider PAs as value-adding learning opportunity. Particularly state government auditees demonstrated a greater inclination towards a positive attitude toward PAs compared to local government auditees. These differences are due to different levels of relationships between state government auditees, local government auditees and performance auditors (see section 10.2.2.2). Moreover, state government auditees perceive PAs as particularly useful because they provide an opportunity to request funding from the government if additional resources are required to implement recommended changes.

On the contrary, for local government auditees PAs often came as a surprise, which has frequently led to complicated and adversarial relationships between auditors and auditees. Because local government auditees do not have the frequent exposure, they find it much more troubling and challenging to be performance audited (see section 10.2.2.2). Additionally, local government auditees often do not see the value in PAs, as to them performance auditors appear to be insufficiently knowledgeable of local government duties and services and programs councils provide due to their lack of engagement and communication. Such findings re-emphasise that the frequency of exposure to PAs and interactions with performance auditors play a significant role in PA activities.

Whether auditees consider PAs as useful further depends on the focus of PAs. From this study it emerged that auditees, MPs and journalists perceive PAs to be useful only if they are targeted towards the improvement of the efficiency, effectiveness and economic performance of public sector organisations. According to auditees and MPs, however, performance auditors have occasionally shifted the focus of PAs towards policy issues. Concerns voiced by auditees and MPs about performance auditors’ focus on policy-issues add to the doubts expressed by Pollitt and Bouckaert (2004), Funnell (2004) and Gendron et al. (2007) that performance auditors are not involved in public sector policy-making. Although the Audit Act 1994 prevents VAGO performance auditors from questioning the merits of public sector policy, which is also frequently stressed in VAGO’s publications, findings point out that PAs occasionally enter the political sphere.

As outlined earlier, PAs are considered as useful by auditees when those changes are practical and implementable, culturally compatible with the organisations’ operations, within the framework of available resources (financial and personnel) and considered necessary and inevitable by auditees. These findings further provide evidence for contentions made by Egeberg and Trondal (2011), who refer to perceptions as frames for action. In other words, only if perceptions are positive, they will lead to actions. For this study context that implies that PAs in general, and PA recommendations in particular, need to pass what March and Olsen (1989) and Reichborn-Kjennerud and Johnsen (2018) refer to as compatibility test. Consequently, recommended changes do not only have to be focused on performance improvement with regards to the three Es, but must also be compliant with the culture of auditees and their perceptions of what is appropriate. If that is not the case, auditees are likely to resist change or employ different strategies (see section 10.2.2.3).

With regards to the usefulness of PAs, auditees emphasised that the increasing amount of PAs they experienced over the years (see Appendix 1), does not necessarily lead to better PA outcomes. On the contrary, increasing numbers of PAs appear to lead to limited perceived usefulness and reportedly create audit fatigue among auditees. Such findings confirm
contentions made by Power (1997) who describes the ever-increasing amount of audit inspections as *audit explosion*. As this study indicates, the side-effect of large numbers of PAs that are often unspecific and untargeted is that from auditees’ perspectives, they seem to decrease in efficacy and significance.

MPs consider the PA objective of performance improvement as significant, however, regard the enhancement of accountability as the primary objective of PAs. From MPs’ perspectives, the usefulness of PAs emerges from those audits being the *arms and legs* of the accountability process in the public sector, which allows MPs to receive an in-depth overview of public sector organisations’ performance (see section 10.2.1). From MPs’ perspectives, for PAs to improve public performance, they need to hold those responsible for performance inefficiencies accountable. Although, according to MPs, in the past, PAs have not always had positive impacts, as only 50 per cent of PAs have been successful in improving audited organisations’ efficiency, effectiveness and economic performance, MPs consider PA activities in general as useful as they facilitate the accountability mechanism in the Victorian public sector.

Journalists generally share MPs’ views of PAs being a tool to facilitate the accountability mechanism in the public sector. Journalists see the contribution of PAs in performance auditors holding auditees’ *feet to the fire* and blaming them publicly for not providing better public services and programs. According to journalists, exerting accountability is what makes PAs so useful. This study therefore concludes that the main rationale for MPs and journalists to perceive PAs as useful is that performance auditors foster the mechanism of holding accountable those responsible for performance inefficiencies, and thereby present an extension of the scrutiny role generally performed by the Victorian parliament (see section 10.2.1).

Based on such findings, it can be argued that the PA objective of performance improvements in terms of the three Es is not fully recognised as rationalised myth by all key stakeholder groups operating within the organisational field of the institution of performance auditing. That PAs have not always focused on improving the economy, efficiency and effectiveness of audited organisations has also been concluded in previous studies by, for instance, Johnsen et al. (2001). Auditees from Norwegian local government councils interviewed for the purposes of their study contended that PA objectives to improve councils’ performance with regards to the three Es have only partially been achieved. Similar conclusions were drawn by Parker and Jacobs (2015) who found that in the Australian country-context PAs have not always focus on all three Es.

This study comes to the conclusions that the adoption of recommended changes is strongly conditional on their perceived usefulness of such changes (see Figure 7). When auditees do not perceive recommended changes as useful, they employ strategies to pursue their own interest whilst conveying the image of complying with the interest of other stakeholders. More precisely, this study found that auditees cover recommendations’ *useless*-ness via a variety of strategic actions (see section 10.2.2.3). The identified strategies employed by auditees are a reflection of the incompatibility of those changes with audited organisations’ culture. While Reichborn-Kjennerud and Johnsen (2015), Raudla et al. (2015), Torres et al. (2016) and Morin (2014) have referred to auditees’ perceived usefulness of recommended changes as an indicator of the likely effective implementation of such changes, this study concludes that auditees’ perceived usefulness is the preconditioning factor that determines whether changes are implemented.

### 10.2.2.5 Factors triggering the implementation of recommended changes

Performance auditors consider the ripple effect as important impact-facilitating factor that allows PA reports and recommended changes therein to have impact beyond their direct reach.
(see Figure 7). This study has provided empirical evidence for the ripple effect triggering action by auditees who have not been the direct target of PAs. Asking themselves *how would that impact us?*, several auditees reported that they frequently review and monitor PA reports and act upon PA recommendations therein, provided that they are relevant for the organisation. Auditees do not necessarily implement changes recommended in the context of PAs of other organisation because they have the genuine desire to improve their organisations’ performance, but in order to convey the image of acting appropriately by implementing suggested changes. Such procedures do not only legitimate auditees’ actions in the eyes of performance auditors, but also *protect* them from potential future PAs. It therefore emerges from this study that the ripple effect is triggered by auditees’ intention and desire to obtain legitimacy from performance auditors. Overall, this study concludes that it is not necessarily the PA conducted on a specific organisation, service or program that has impact, but the PA on other organisations delivering similar programs and services.

Such findings demonstrate that auditees’ attitude towards PA practice conforms to Michael Power’s *Audit Society*. By implementing recommended changes made in the context of PAs that auditees were not subject of, they make their organisations more auditable by self-assessing their organisations’ performance (Bowerman et al., 2000). Stephens and Bowerman (1997) label public sector organisations’ occasional self-assessment of their activities as compulsory benchmarking (see also Bowerman et al., 2000). The ripple effect has to date not been defined as impact-facilitating factor and is therefore considered as one of the new findings emerging from this research.

Moreover, VAGO follow-up audits were identified as impact-facilitating factor (see Figure 7). Performance auditors and MPs provided the views that VAGO follow-ups trigger auditees’ acceptance of recommended changes by holding them accountable for inaction on recommendation implementation activities. Described by MPs as important part of the public accountability framework of Australia, follow-up audits enhance the accountability of auditees for their responses to recommendations. Similarly to Brookes and Pariser (1995) who state that without performance auditors’ follow-up actions, auditors would make the same recommendations year after year, MPs interviewed for this study expressed that over years, several PAs have identified the same or similar public sector performance issues. MPs emphasise that without VAGO follow-ups, auditees would consistently ignore recommended changes.

From auditees’ perspective, it is not good practice by performance auditors to simply repeat PA recommendations in their follow-ups in the attempt to reinforce them. Barrett (2011) made the assertion that follow-ups are not effective if they constitute inquiries of repetitive nature which solely re-emphasise recommended changes. Auditees’ analogy of follow-ups of recommendations being like *relabelling old wine in new bottles* demonstrates that auditees participating in this study adopt a sceptical view. Furthermore, auditees expressed doubts about the usefulness of VAGO’s self-assessment follow-up survey. Local government auditees reported to often receive automated online surveys that require auditees to self-assess their implementation activities. Such initiatives may lead to higher recommendation acceptance rates, however, do not guarantee the implementation of recommended changes. According to auditees the self-assessment survey is rather ineffective as it does not allow for discussions around the reasons for non-implementation. This study concludes that for the reasons outlined, follow-up audits are not always as effective as proclaimed by authors of previous PA studies (see e.g. Put and Turksema, 2011; Brooks and Pariser, 1995; Morin, 2008).

While authors of previous studies propose that parliamentary follow-ups and hearings have political-legitimising impacts (e.g. Van Loocke and Put, 2011; see also Sharma, 2007;
Hepworth, 1995; Lonsdale, 2000, 2008), this study made contrary findings that show that MPs’ intervention and support can potentially enhance the efficacy of PAs (see Figure 7), but are not considered as PA impact per se. From MPs’ perspectives, PAEC follow-up inquiries and hearings offer assurance to the Victorian public that Parliament undertakes its scrutiny role of monitoring public sector performance. Through parliamentary follow-up inquiries and hearings, MPs exert accountability and draw journalists’ attention to PA findings. Mulgan (1997) emphasises the scrutiny function of parliamentary committees as most effective aspects of parliamentary work. Also, from this study it emerged that by bringing public criticism to bear on departments and their ministers, MPs exert an accountability function, which puts auditees under pressure to improve their operations. Auditees, however, clearly emphasised that similarly to performance auditors, MPs do not have institutional power to enforce the adoption of recommended changes.

Contrary to previous studies by, for instance, Van Loocke and Put (2011) who refer to media coverage as political-legitimising impact, and Morin (2008) and Reichborn-Kjennerud and Vabo (2017), who provide empirical evidence for press coverage spurring auditees into action to implement changes, this study has found that auditees’ implementation actions are not directed by press coverage but can be facilitated by it. Hence, while former studies identified press coverage as impact, this study concludes that press coverage serves an impact-facilitating function triggered by auditees seeking legitimacy from the media (see Figure 7 and section 10.2.1). Several auditees claimed not to feel severely affected by press coverage. One reason identified in this study for auditees’ perceived limited impact of media coverage is the ongoingly critical media reporting.

10.2.2.6 Organisational changes

All key stakeholder groups relevant for this study have identified organisational changes as PA impacts. In interviews, journalists, for instance, referred to real change as impacts of PAs. Also, performance auditors strongly emphasised that the adoption of recommended changes has positive impact on audited organisations. Thereby, they have confirmed conclusions drawn by Lonsdale (1999) and Funkhouser (2011) that PAs only have impact if they lead to positive changes in audited organisations.

For this study, the NIS concept of organisational change helped the researcher to identify known as well as unknown forms of changes and to examine their magnitude and likely impact. Against contentions expressed in previous studies that revolutionary changes are often ignored or rejected by auditees (see e.g. Reichborn-Kjennerud, 2014a), findings emerging from this research demonstrate that organisational changes in staff training, IT systems and accounting systems considered as complex, reform-like and of significant magnitude have been implemented due to their perceived usefulness. While changes in staff training were previously identified in research studies by, for example, Reichborn-Kjennerud and Vabo (2017), in interviews, auditees identified changes in IT systems and accounting systems, two changes not identified and examined in previous PA literature.

Although described as huge changes, that were challenging to implement, all three types of changes (staff training, IT systems and accounting systems) were perceived as useful and impactful due to several reasons. For instance, the change in staff training was considered as useful as it brought positive change to the culture of the organisation by enhancing the work flow between different working groups. Therefore, work processes were not just made more efficient and effective but also the accountability between different parties within organisations was enhanced. Changes in staff training were further described as having long-term learning effects.
Further, the substantial contribution of adopted IT changes was emphasised by auditees who contended that such changes were welcome, and in fact, timely and necessary given that former systems were outdated. Therefore, auditees embraced this change as an opportunity for reform. Similarly to changes in IT systems, experienced changes in accounting systems have been described by auditees as long overdue. Despite of the investment required for the implementation of this type of change, auditees eagerly implemented what was proposed by performance auditors. Auditees reported that effectively this change has led to long-term improvements by making transaction processing more efficient by automating the recording of transactions (see chapter 9).

Overall, it appears that the timeliness and perceived urgency of changes in IT and accounting systems as recognised by auditees, influence their considering respective changes to be useful and feasible and therefore meriting implementation. Interviewed auditees clearly stated that although being of significant magnitude and causing several challenges, the major changes in staff training, IT systems and accounting systems, have been perceived as most useful. Such findings contrast with conclusions drawn by authors of previous studies who reason that extensive and complicated changes are often rejected or ignored due to their perceived complexity (see e.g. Hamburger, 1989; Johnston, 1988) and that auditees usually tend to adopt changes regarded as low-hanging fruit (e.g. Van Loocke and Put, 2011; Hatherly and Parker, 1988; Desmedt et al., 2017).

While auditees referred to changes in staff training and changes in IT systems and accounting systems as being exceptionally useful and impactful, they have described several other changes of lower magnitude as being of limited usefulness. The reasons stated are that minor changes have not been as urgent and timely as those changes categorised as major. Incremental changes, as reported by auditees, required them to fix up identified issues but do not make a major difference with regards to their performance. Thus, minor changes do not revolutionise audited organisations. Minor changes referred to by auditees are, amongst others, allocation of government resources and changes in governance.

While findings from this study do not provide empirical evidence for revolutionary or radical changes that according to Greenwood and Hinings (1996) transform business units or entire organisations and bring along immense structural changes, auditees have identified major changes that appear to be located somewhere between the opposing end points of the continuum, i.e. incremental and frame-breaking change. Although described as huge and reform-like, auditees claimed to have been able to manage the implementation of such major changes without facing significant complications. Incremental changes have reportedly helped auditees to undertake what Greenwood and Hinings (1996) consider as fine-tuning of existing structures and processes within the organisations. Such changes have, however, been perceived as less useful compared to major changes as they were not considered as being urgent and timely.

This study has also found that induced changes have had negative effects: instead of being a driver for improved performance, accountability has often been a breaker of innovation by either slowing down or hampering innovation and entrepreneurship in the public sector in Victoria, thereby diminishing or impeding organisational performance. Rather than fostering performance improvements, PAs have reportedly taken away the speed from audited local government councils. Further, performance auditors’ repeated reporting of negative findings, particularly when performance auditors directly engage with the media, resulted in auditees’ aversion to taking risks. Such findings reflect conclusions made in earlier studies by Raudla et al. (2015) and Van Loocke and Put (2011) that PAs do not necessarily lead to positive impacts but can indeed have adverse effects on audited organisations. These findings further emphasise
contentions made by Morin (2001) that it should not be taken for granted that PA generally made positive contributions to public sector performance.

While previous studies have referred to changes in general and have only touched on the dimensions of changes to a limited extent (see e.g. Desmedt et al., 2017; Morin, 2008, 2014; Reichborn-Kjennerud and Vabo, 2017), this study has elaborated on the different dimensions and the magnitude of specific changes. As findings have shown, the types, dimension and magnitude of changes significantly influence auditees’ perceived usefulness of such changes, and therefore their decision of whether those changes are implemented or not. Overall, addressing RQ3, this study concludes that auditees’ perceived usefulness of changes depends on whether auditees consider recommended changes as timely, necessary and valuable. Major changes have had significantly more positive impact than minor changes.

10.3 Contributions to the literatures

Forthcoming sections provide a brief summary of the key contributions this study makes. Thereby, it is outlined how the overall research objective has been addressed. In this regard, it is described how the conceptual map developed by the researcher contributes to the extant PA literature. Moreover, the focus is on key contributions this study makes to the accountability and NIS literatures.

10.3.1 Key contributions to the extant performance audit literature

Both practitioners and researchers have recognised and emphasised the importance of better understanding PA impacts and the various different factors that potentially trigger such impacts (e.g. Hatherly and Parker, 1988; Kells and Hodge, 2009; Morin, 2008; Parker et al., 2018; Kells, 2011b). Efforts to identify and categorise PA impacts have been undertaken by authors of previous studies. However, those studies have been somewhat limited in their research focus, methodology and theoretical application. Overcoming the limitations of previous studies that capture the perceptions of single stakeholder groups such as auditees or performance auditors (e.g. Morin, 2003; Gendron et al. 2007), or examine dyadic stakeholder groups relationships in the PA context (e.g. Morin, 2004 and 2014; Funnell and Wade, 2012), this study illustrates in the form of a conceptual map, what the PA impact and impact-facilitating factors are in the PA context of Victoria from the perspectives of multiple key stakeholder groups.

While the conceptual map captures auditees’, performance auditors’, MPs’ and journalists’ definitions of factors facilitating PA impact, (i.e. induced organisational changes), the map further demonstrates how the different factors are interconnected and influence one another. This is a major contribution of this study. More precisely, the conceptual map reveals that in order to have positive impact, recommended changes need to pass the filtering of auditees’ judgement of whether those changes are useful. In other words, for PAs to have positive impact, recommended changes must be regarded as having the potential to improve the efficiency, effectiveness and economic performance of audited organisations and must be perceived as useful by auditees, which presupposes that recommended changes are aligned and compliant with the culture of audited organisations.

A considerable number of impact-facilitating factors was identified that appeared to sensitise auditees’ perceptions of PA usefulness. AGs’ and performance auditors’ intent and culture (see section 10.2.2.1), auditees’ frequency of exposure to PAs affecting relationships between performance auditors and auditees (see section 10.2.2.2), the materiality of PA reports and kind of PA recommendations (see section 10.2.2.3) are some of the factors that directly influence auditees’ perceived usefulness of PAs and therefore determine whether organisational changes are implemented. Moreover, illuminating the (dominant) accountability relationships and
legitimacy relationships between relevant key stakeholder groups, the conceptual map illustrates the conditioning context for PAs to have impact.

Overall, this study contributes to PA literature by developing a conceptual map that provides a multi-perspective interpretation of PA impacts. Furthermore, it makes a significant contribution by adding to the literature the perceptions and interpretations of parliamentarians and journalists, two stakeholder groups that have not been subject of extensive PA research. Moreover, drawing on strategic responses by auditees, findings from this study also re-emphasise contentions made by Morin (2001), Power (2003a) and Bowerman et al. (2000) that PAs often serve no purpose, are empty ritualistic forms of auditing and swallow up taxpayers’ money without adding value for citizens. Findings emerging from this study that address the often limited usefulness of PAs justify the implications provided in section 10.4 on how to potentially improve PA practice.

10.3.2 Key contributions to the extant NIS and accountability literatures

This study further makes theoretical contribution to NIS and accountability literatures. More precisely, this study contributes to the understanding of how the relevant institutional environment shapes the formation of managerial, political and public accountability relationships. Viewing accountability relationships through the lens of NIS allowed the researcher to identify the dynamics of managerial, political and public accountability relationships in the PA context and to elaborate on the effects such accountability mechanisms have in the PA environment. The focus on the organisational field level helped the researcher to identify and elaborate on different levels of engagement and interactions between stakeholders. For instance, it was found that the engagement and interaction between local and state government auditees differs significantly, which, in turn, affects their perceptions of PA usefulness and their interpretation of PA impact.

At the field level, all three relevant accountability dimensions, (i.e. managerial, political and public accountability) were identified (e.g. Sinclair, 1995; Bovens et al., 2014; Parker and Gould, 1999; Luke, 2010). Empirical evidence has shown that some of the present accountability relationships have a dominant character. For example, findings from this study emphasise the importance of the managerial accountability relationship between auditees and their internal audit committees. This managerial accountability relationship has been found to be of substantial importance with regards to auditees’ implementation of organisational change. More precisely, it is the oversight and monitoring function that internal audit committees execute when exerting managerial accountability, that is of particular importance.

Auditees referred to their managerial accountability relationships to executives as well as political accountability relationships to ministers as direct accountability relationships. With respect to the political accountability dimensions, it has been demonstrated that ministers, who hold institutional power to influence auditees, are able to spur auditees into action. While the direct political accountability relationship to ministers appears to be of great significance with respect to auditees’ implementation of organisational change, auditees’ indirect political accountability relationship to MPs defined as being of temporary nature seems to be less important. Such findings contribute to definitions of the political accountability dimension provided by Sinclair (1995) and Mulgan (1997) and managerial accountability dimensions provided by Aucoin and Heintzman (2000) and Parker and Gould (1999). Moreover, these findings demonstrate that the examination of dimensions of accountability relationships through the lens of NIS helps to better understand the factors that shape the formation of accountability relationships (see e.g. Ryan et al., 2002). In this regard, this study concluded that direct accountability relationships, whereby the accountor exerts direct influence on the
accountee, are of dominant nature. It is therefore not surprising that certain managerial and political accountability relationships have been referred to as impact-facilitating factors (see Figure 7).

10.4 Implications for performance audit practice and policy

The conceptual map contributes to PA practice by providing mutual understanding among all key stakeholder groups of what each group considers as impact. In forthcoming sections, the researcher provides practical implications for auditees and performance auditors. These implications are based on the findings that emerged from this study.

10.4.1 Implications for auditees

This study offers helpful information for auditees with regards to performance auditors’, MPs’, and journalists’ perceptions of accountability relationships, PA usefulness and their interpretations of impact. Insights into how other key stakeholders perceive auditees, their actions and reactions, and what they expect from auditees may assist auditees to reconsider and revise their approach to PAs. Based on the identification and examination of strategies and tactics employed by auditees when confronted with performance auditors’ recommended changes, the researcher provides a number of suggestions to auditees who believe that their organisations may benefit from improved responses to performance auditors and better engagement with other stakeholders. More precisely, this research study advises auditees to

a. encourage performance auditors to involve auditees in preliminary PA discussions and briefings;
b. clarify at the beginning of the PA what the auditors’ expectations are and what auditees expect the PA to achieve;
c. engage with performance auditors throughout the PA process in order to avoid recommendations to be tabled in reports that are not feasible;
d. improve the quality of responses to PA recommendations in order to allow performance auditors to better assess the recommendations auditees consider as difficult to implement;
e. present their action plans in a more precise, detailed and comprehensive manner in order to allow performance auditors and MPs as well as the public and media to keep track of auditees’ implementation actions. This procedure helps to close the accountability loop;
f. draw performance auditors’ attention to recommendations that are considered as not feasible and suggest amendments to be made to such recommendations;
g. review and screen reports and recommendations of PAs targeting other organisations and implement actions where suitable (facilitate the ripple effect);
h. inform internal audit committees about PA outcomes, status of recommendation implementation and timelines of implementation actions.

10.4.2 Implications for performance auditors

By capturing the perceptions of auditees, MPs and journalists about PAs in general, their usefulness and impacts, this study offers supportive information to performance auditors in conducting PAs and engaging with all relevant key stakeholder groups. Suggestions made below potentially support performance auditors in identifying auditees’ strategic responses to PAs and counteracting them. Actions suggested to performance auditors for successful communication and interaction with auditees may assist them to build better relationships with auditees and, thus, to discourage auditees to react strategically. The researcher’s implications
further support performance auditors to create greater awareness of their roles within the organisational field they operate in. In turn, such awareness among other stakeholders, may lead particularly auditees to be more receptive to the contribution performance auditors can make to their organisations. The researcher’s suggestions address the three categories of (1) engagement and interaction with auditees, (2) planning and scoping of PAs, (3) PA report, (4) nature and feasibility of recommended changes, and (5) follow-up audits.

1) Research findings have shown that positive relationships between performance auditors and auditees positively affect the potential impact of PAs. Thus, the researcher suggests that performance auditors should
   a. encourage more frequent interaction and engagement with auditees (particularly local government auditees) to improve their perception of PAs in general and positively affect their culture and attitude towards PAs;
   b. ensure that auditees, particularly local government auditees have a better understanding of the PA process and objectives of PA activities;
   c. foster engagement and consultation with auditees during the PA process in order to formulate practical recommendations tailored to audited organisations’ specific needs.

2) Planning and scoping of PAs. Performance auditors should:
   a. make the PA scoping process more transparent for auditees to be able to better prepare for the audit and make available required information and documents to performance auditors;
   b. request auditees’ feedback at the scoping stage to allow for better targeted PAs that have more potential to achieve performance improvement with regards to the three Es;
   c. focus more on the investigation into the economy, efficiency and effectiveness of public sector organisations’ performance instead of entering areas regarded as public policy;

3) Performance audit report. Performance auditors should:
   a. be more pointed in their criticisms outlined in PA reports and should map out in more detail identified improvement opportunities instead of criticism for failure;
   b. use concise language in the PA report and formulate PA findings and recommendations clearly;

4) Nature and feasibility of recommended changes. Performance auditors should:
   a. pursue more engagement with auditees at the early stages of formulating recommendations to ensure that recommendations are considered feasible and useful by auditees in order for recommendations to be implemented;
   b. recommend changes that are compatible with audited organisations’ culture;
   c. recommend changes that target specific programs/services and/or audited organisations’ needs;
   d. recommend changes that are timely and considered necessary by auditees;
   e. recommend changes that outline in more detail how to make performance improvements;
   f. recommended changes that are feasible, implementable and within the resourcing framework of audited organisations;
   g. recommended changes that encourage auditees to be innovative rather than hampering their ideas;

5) Post PA (follow-up). Performance auditors should:
a. improve the efficacy of follow-up audits by returning physically to the audited organisations instead of sending self-assessment follow-up inquiries in form of a survey tool.

Many of the researcher’s practical implications involve suggestions of how to improve the formulation and provision of recommended changes. This has been given particular importance provided that auditees emphasised that they would perceive PAs as more useful and would be more willing to implement changes, and, most significantly, benefit from real change, if PAs were more targeted and specific in their findings and recommended changes.

10.5 Limitations

This section emphasises the limitation this research study faced. In this section, the following three limitations are addressed:

1) choice and application of the theoretical framework;
2) design and administration of the data collection and analysis of the data; and
3) focus on a single jurisdiction.

The theoretical limitations will be outlined first, followed by methodological limitations this study was confronted by. Some of these limitations have already been identified and addressed in chapter 4 and chapter 5. In previous chapter, the researcher further outlined how those limitations were mitigated. For these reasons, this section only focuses on theoretical and methodological limitations that were not discussed previously and are awaiting further elaboration. Apart from theoretical and methodological limitations, this research was also restricted through the focus on a single jurisdiction. Although not a case study, this research focused on the institution of PAs conducted by VAGO, which is constrained by its institutional environment including political and legislative factors in Victoria.

Addressing the first limitation of this study, the researcher noted that NIS and selected institutional concepts supplemented by accountability dimensions has proven to be a useful theoretical framework through which to interpret the comprehensive and complex data set. However, NIS in combination with preselected accountability dimensions is not the exclusive means to gain better understanding of the phenomenon of the PA function and its impacts. In fact, previously conducted studies have investigated PA impacts through the lenses of evaluation and organisational learning (Reichborn-Kjennerud and Vabo, 2017), actor network theory (Justesen and Skærbæk, 2010), impression management (Morin and Hazgui, 2016) and organisational influence processes (Morin, 2014). Few PA studies adopted individual concepts borrowed from institutional theory. Funnell and Wade (2012) and Reichborn-Kjennerud (2014a), for instance, applied Oliver’s (1991) strategic responses to institutional responses.

However, recognising the interaction and relationships between key stakeholder groups as significant parameters for PA impact, the investigation of such impacts necessitated the examination of the organisational field level within which stakeholders interact. This defined organisational field level is shaped by the boundaries of the institutional environment of the Victorian public sector. The elaboration on PA impacts and accountability relationships between key stakeholder groups required to view PA activities in the bigger picture context. Regarding the theoretical lens adopted by this research study, the researcher underlines that the choice of the theoretical framework influenced questions asked in the survey questionnaire and interviews (see Appendices 2 and 3). More precisely, questions were structured around stakeholder groups’ accountability relationships. Hence, it is important to note that if the phenomenon of PA practice had been viewed and examined through different dimensions of accountability relationships (e.g. professional accountability), or alternative theoretical lenses mentioned above, findings of this study may look different.
The second limitation revolves around the research design employed by this study and the data analysis. By adopting different methodologies, the researcher accepted limitations arising from each as explained in chapter 5. Qualitative data collected for the purpose of this study partly derived from stakeholder interviews. A total of 43 participants were interviewed, of which the majority were auditees. In order to obtain a balanced view from interviewees, the researcher carefully considered the representation of interviewees of all levels of government. The employed snowball sampling technique helped to identify those auditees who experienced PAs and are therefore familiar with the PA process and its intended outcomes. As this study is qualitative in nature, it did not intend to identify representatives of all public sector organisations in Victoria that undergo PAs. Rather, this research study sought to capture the rich experience of interview participants who were frequently involved in PAs.

At this point it also needs to be acknowledged that the perspectives of performance auditors were captured through a detailed analysis of documents and reports that VAGO creates and releases into the public domain. It needs to be noted that findings from this study may have been different if performance auditors had been interviewed. Nevertheless, the researcher considered exploring and apprehending performance auditors’ perceptions solely through documents as suitable provided that the change of the AG in 2016 has triggered a major transformation of VAGO staff, which also affected VAGO’s PA department. As new VAGO PA staff only commenced undertaking audits in 2016, their experiences would not have been relevant for this study, which focuses on the time period of 2009-2015.

The collection of predominantly qualitative data, particularly interview data, gives rise to interviewer-induced bias. To minimise this concern, an interview guide listing interview questions and probe questions was developed before the commencement of interviews. While in qualitative interview research it is unlikely to completely eliminate the risk of researcher bias, this risk was mitigated through the involvement of the supervisor team. Qualitative research methodologists suggest involving additional researchers in order to reduce the subjectivity of the single researcher. Although in this study, the close involvement of additional researchers was not an option, the researcher continuously liaised with her supervisor team discussing emerging findings. Researcher bias due to subjective interpretation of interview data was further reduced through the support of other sources of evidence that supplemented interview data. Quantitative survey data and documentary evidence were instrumental to provide a more balanced view.

Third, this research is limited to PAs conducted by VAGO performance auditors. Thus, the institutional environment under study including its political, legal and social aspects and key stakeholder groups’ relationships were unique to the study of the PAs in Victoria. Hence, as findings of this study emerge from the analysis of PA activities in Victoria only, the researcher is cautious not to overgeneralise findings. In fact, the researcher acknowledges that due to the differences in legislative frameworks, the PA mandate, and social and political environment, findings of this study may not be fully applicable or attributable to other Australian AGOs. Further, different AGOs in Australia may interpret the PA mandate differently (Hatherly and Parker, 1988; Parker et al., 2018). Although there are no doubts that the conceptual map is helpful for other Australian jurisdictions, it must be noted that such findings emerged from an investigation into PA as an institution in the institutional environment of Victoria. Another aspect that restricts the researcher in her claims of the conceptual map to bear relevance for other jurisdictions, is the time period under study, i.e. the financial years of 2009 to 2015. Future research studies addressing earlier, or later timeframes may draw different conclusions.
10.6 Avenues for further research

In the course of this research study a number of topics emerged that suggest potential directions for future research in the PA field. One of the many findings that emerged from this research study is that managerial accountability relationships between auditees and public sector organisations’ internal audit committees play a significant role for auditees’ recommendation implementation actions and, thus, for PAs to have impact. However, findings have also demonstrated that not all public sector organisations have appropriately functioning internal audit committees. In this regard, it was highlighted by VAGO performance auditors and MPs that internal audit committees are often not informed by auditees about PA outcomes and recommendations, which, in turn, hinders PAs’ ability to have positive impact on audited organisations. Hence, further investigations into the significance of the monitoring and oversight roles of internal audit committees and their effects on auditees’ recommendations implementation actions would be worthwhile in order to explore the reasons for some internal audit committees not performing as well as others.

Another major finding of this study is the difference between the relationships performance auditors hold with state government auditees and local government auditees. The two groups of auditees evidently hold different perceptions of the usefulness of PAs in general, and performance auditors’ approach and engagement with auditees, specifically. While this research study found that one of the reasons for the difference in auditees’ perceptions at different government levels is the frequency with which they are exposed to PAs and experience interaction with performance auditors, future research is needed to explore this issue in greater depth. When exploring performance auditors’ rationales for engaging to a greater extent with state government representatives as opposed to local government auditees, future studies should take into consideration the institutionalised concept of auditors’ independence.

Previous comparative PA studies, for instance, by Hatherly and Parker (1988) and Glynn (1985), have evaluated PA activities and processes in Australian jurisdictions. Since the publication of those studies more than 30 years ago, it can reasonably be assumed that the PA mandate in most Australian states has since developed and improved. While this study contributes to the PA practice in Victoria, there is a need to investigate the status quo of PA work and its impacts in other jurisdictions and to draw comparisons between states. Both the theoretical framework and the research design employed by this study should allow scholars to replicate this study. The applied theoretical framework taking into consideration the institutional environment of VAGO PAs and the employed research design combining the benefits of qualitative and quantitative research, offer a strong framework for the examination of public sector PA issues. Comparative studies of stakeholders’ accountability relationships and interpretations of PA impacts across jurisdictions in Australia would add further value to PA practice and literature. Such studies could also apply a wider range of accountability dimensions, including, for instance, professional accountability. The value of such comparative studies is that they are likely to yield insights into different AGOs’ best-practices in regard to the PA process with the potential to provide learning effects to AGOs.

This study also has opened the gates for further research on PA practice in different country-settings. Adopting the theoretical framework and research design used for this study, prospective comparative studies across countries could be undertaken. A previously conducted comparative quantitative study by Torres et al. (2019) compared PA practices and impacts between European SAIs and RAIs. To that purely quantitative study, perspectives and interpretations captured through a mixed-methods research design such as the one employed in this research could be added, intended to contribute to perceptions of PA practice at a global
level. These suggested avenues for further research are only a selection of ideas for further research that emerged from the many findings of this study.
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### Appendix 1: Performance audits across Australia (2000–2015)

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<td>52</td>
<td>51</td>
<td>49</td>
<td>35</td>
<td>340</td>
</tr>
</tbody>
</table>

Source: Data derived from relevant AGs’ annual reports.

Note: The South Australian Auditor-General Office has not to date produced stand-alone performance audit reports.
Appendix 2: Online survey questionnaire

The following section asks for your professional background:

Please state the area in which you are currently employed.

- Education and Training
- Economic Development, Jobs, Transport and Resources
- Health and Human Services
- Environment, Land, Water and Planning
- Justice and Regulation
- Premier and Cabinet
- Treasury and Finance
- Other (please specify)

What is your current position?

- Top/senior management
- Middle management
- Other

In how many performance audits have you been involved throughout your career?

- 1 – 4
- 5 – 9
- 10 – 14
- 15 – 19
- more than 20

Please indicate in which of the following performance audits you have been involved (you can choose multiple options)

- Performance audit of a particular program
- Performance audit of a particular system
- Performance audit of a whole organisation
- Other (please specify)
- None
The following section is concerned with the contribution of performance audits to your organisation. Please indicate the extent to which you agree or disagree with the following statements.

<table>
<thead>
<tr>
<th>Performance audits...</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neither agree nor disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>highlight inconsistencies in my organisation’s operations.</td>
<td></td>
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<tr>
<td>influence the ministers decision-making process.</td>
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<tr>
<td>prompt major unexpected changes.</td>
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<tr>
<td>endorse changes that our organisation planned to make anyway.</td>
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</tr>
</tbody>
</table>

The following section is concerned with your perceptions of performance audit impacts. Please indicate the extent to which you agree or disagree with the following statements.

<table>
<thead>
<tr>
<th>Possible visits by performance auditors lead our organisation to take preventive actions, such as:</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neither agree nor disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing compliance with the laws and regulations.</td>
<td></td>
<td></td>
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<tr>
<td>Producing more detailed information regarding the organisation’s performance.</td>
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<tr>
<td>Implementing more efficient and effective management practices.</td>
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</tbody>
</table>
When it is possible to anticipate the findings of auditors…

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neither agree nor disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>we undertake corrections during the audit process.</td>
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<tr>
<td>we prefer waiting for the performance audit report before undertaking corrections.</td>
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</table>

Performance audits have stronger effects on our organisation when auditors…

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neither agree nor disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
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</thead>
<tbody>
<tr>
<td>demonstrated a collaborative style during the audit (e.g. communicated in an open manner).</td>
<td></td>
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<tr>
<td>take into consideration our comments made during the audit.</td>
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<tr>
<td>take into consideration our disagreement on audit findings and conclusions.</td>
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<tr>
<td>correct factual errors based on our disagreement with audit findings and conclusions.</td>
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<tr>
<td>encourage us to comment on their recommendations.</td>
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</table>
### Recommendations made by auditors…

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neither agree nor disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
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</thead>
<tbody>
<tr>
<td>usually result in performance improvements of our organisation.</td>
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<td>generally reach the source of the problem.</td>
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<tr>
<td>are often theoretically useful but difficult to apply.</td>
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<tr>
<td>have a stronger effect on our organisation when auditors consult us before recommendations were developed.</td>
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</table>

### Performance audit reports…

<table>
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<tr>
<th>Strongly disagree</th>
<th>disagree</th>
<th>Neither agree nor disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
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<tbody>
<tr>
<td>are unbiased.</td>
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<tr>
<td>serve as a valid basis for an internal discussion.</td>
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<tr>
<td>reach conclusions that are adequately supported by relevant facts.</td>
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<tr>
<td>are used by auditors as an opportunity to pressure us to move from discussion to action.</td>
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<tr>
<td>are used by Parliamentarians/members of the Public Accounts and Estimates Committee (PAEC) to pressure us to move from discussion to action.</td>
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<tr>
<td>are used by Parliamentarians/PAEC members to hold us to accountable.</td>
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</table>
Follow-up audits…

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>disagree</th>
<th>Neither agree nor disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>encourage us to respond to audit recommendations made by auditors.</td>
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<tr>
<td>strenghthen the overall effect performance audits have on our organisation.</td>
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</table>

**What kind of changes have been implemented in your organisation as a result of performance audits? You can choose several options:**

- Amendment of existing laws or regulations.
- Adoption of new laws or regulations.
- Changes in internal control and risk management.
- Changes in strategies, planning or performance management.
- Changes in management or organisation.
- Changes in reporting.
- Changes in human resources (additional recruitment, layoffs, changes of workplace)
- Creation of new work groups or reform of existing groups.
- Changes in staff training.
- Increased budgetary allocation to the audited policy area.
- Other (please specify).
- No changes have been made to our organisation.
Changes implemented by our organisation have led to:

- significant improvements in the overall performance.
- more efficient programs and processes.
- more effective provision of services and programs.
- better allocation of financial resources.

The reasons for not making changes as recommended by auditors were:

- It was too early to make the suggested changes.
- No financial resources were available for the implementation of the suggested changes.
- The performance audit report did not present the facts accurately.
- Suggested changes have not been perceived as useful.
- Challenges identified by auditors were known before and measures were already been put in place to correct them.
- We were not responsible for making the changes.
- We devised an alternative strategy to deal with the concerning issue.
- if other, please specify...
The following section is concerned with the consequences of media interest in performance auditing. Please indicate the extent to which you agree or disagree with the following statements.

<table>
<thead>
<tr>
<th>As a consequence of media interest the following occurred:</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neither agree nor disagree</th>
<th>Agree</th>
<th>Strongly Agree</th>
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<tbody>
<tr>
<td>Media attention towards services provided by our organisation leads to the initiation of (a) performance audit(s).</td>
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<tr>
<td>Media interest fosters the performance audit’s success.</td>
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<tr>
<td>Press coverage forced us to implement changes recommended by auditors.</td>
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</table>

The following section is concerned with the consequences of Parliamentarians'/PAEC members’ interventions. Please indicate the extent to which you agree or disagree with the following statements.

<table>
<thead>
<tr>
<th>Parliamentarians/PAEC members involved in performance audits...</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neither agree nor disagree</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>create a sense of urgency within our organisation to react to auditors’ recommendations by initiating public hearings.</td>
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<tr>
<td>create a sense of urgency within our organisation to react to auditors’ recommendations by initiating follow-up audits.</td>
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<tr>
<td>make further relevant recommendations that address and monitor progress against auditors’ recommendations.</td>
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<td>accelerate implementations of concrete measures to correct the problems raised by auditors.</td>
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</table>
In order to answer the final question, please insert a number from 1 (strongly disagree) to 5 (strongly agree) that best represents your perception for each of the stakeholder groups. Note: you can use the same number for several stakeholder groups. Make sure that you write a number under all the stakeholder columns.

**Scale**

<table>
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<tr>
<th>Strongly disagree</th>
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<th>Neither agree nor disagree</th>
<th>Agree</th>
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<td>5</td>
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Please scale from 1 (strongly disagrees) to 5 (strongly agrees) the relevance of each stakeholder in assisting your organisation to reach the following objectives:

<table>
<thead>
<tr>
<th>Question</th>
<th>Key Stakeholders of Performance Auditing</th>
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<tbody>
<tr>
<td>exerts pressure on our organisation’s performance.</td>
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<tr>
<td>assists us to achieve more efficient outcomes (i.e. deliver better programs for the given level of financial and human resources).</td>
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<tr>
<td>assists us to reach higher levels of</td>
<td></td>
</tr>
</tbody>
</table>

229
effectiveness (i.e. achieving intended goals of provided programs).

assists us to make better economic decisions (i.e. reduction of the costs of resources used for a program while maintaining program quality).

assists us to improve the overall ability of our organisation to reach its strategic objectives and its mission.
If there is any other aspect in terms of performance audit impacts that you would like to share, please use the box below.

[ ]

Dear Participant,

Thank you for your valuable responses. If you have an interest in performance auditing and its impacts, would you like to detail with us your perspective, in a follow-up interview?

We would appreciate your support.

All of your information and interview responses will be kept confidential.

- I agree to take part in follow-up interviews. Please provide your email address.
- I prefer not to participate in interviews.

Thank you for taking the time to complete this questionnaire. If you have any queries please do not hesitate to contact me by telephone (03 9925 5542) or email (jana.schmitz@rmit.edu.au).

If you would like a summary of the findings sent to you, please write your email address here: […]
Appendix 3: Interview questions

Interview questions for auditees:

Demographic Questions

1. How long have you been in your current position in this organisation?
2. How many performance audits have you experienced (approximately)?
3. Tell me about the nature of your involvement with performance audits.

Usefulness of Performance Audits

4. Tell me about your opinion on performance audits. Do you regard them favourably or unfavourably?
5. How would you describe the atmosphere within your organisation when there is a performance audit forthcoming?

Performance Audit Impacts

6. From your experience, what are the impacts of performance audits?
7. Can you outline any organisational responses to performance audits that have occurred during the audit process?
8. Have you experienced any follow-up audits conducted by VAGO auditors and/or PAEC members in relation to performance audits?
9. What types of organisational responses to auditors’ recommendations have you witnessed?
10. How could the usefulness of performance audits be improved? What are your suggestions?

Changes made to Audited Organisations

11. What are the types of changes you have seen recommended by performance auditors?
12. Can you give your overall assessment of the feasibility of those changes?
What motivates or does not motivate your organisation to comply with suggested changes?

Accountability Relationships

To whom do you feel your organisation is more accountable?

a Parliamentarians/PAEC
b ministers
c top management of your organisation
d VAGO performance auditors
e public
f media
g other

To what extent do(es) this/these relationships influence your organisation’s performance?

Do you feel that any change happens during performance audits in ‘to whom’ your organisation is accountable and ‘for what’ it is accountable?

Interview questions for MPs:

Demographic Questions

1 How long have you been in your current position as a MP/PAEC member?
2 How many performance audits have you observed or reviewed (approximately)?

Usefulness of Performance Audits

3 What are the challenges you experience when involved in performance audits?
4 Do you interact with auditees? What are the occasions (e.g. follow-up audits)?
5 What is the nature of your interactions with VAGO performance auditors (before, during and/or after the performance audit process)?

6 Why do you think performance auditing is relevant in the Victorian public sector?

**Performance Audit Impacts**

7 What are the results the PAEC expects to achieve through performance audits?

8 According to which criteria does the PAEC define performance audit topics?

9 In your opinion, how do performance audits impact on public sector organisations, their programs and systems?

10 How does the PAEC assess the impacts of performance audits?

11 To what extent does the PAEC pay attention to VAGO performance auditors’ recommendations published in performance audit reports?

12 What are the PAEC’s selection criteria when deciding on which performance audits to follow-up?

13 To what extent do follow-up audits intensify the impacts of performance audits?

**Changes made to Audited Organisations**

14 What types of changes do VAGO performance auditors generally suggest to audited organisations?

15 How do(es) this/these type(s) of change(s) address the PAEC’s expected results of performance audits?

16 How could the usefulness of performance audits be improved? What are your suggestions?

**Accountability Relationships**

17 To whom do you feel the PAEC is more accountable?

   a ministers
Interview questions for journalists:

Demographic Questions

1. For how long have you been involved in writing about public sector?

2. In your profession as a journalist, to what extent are you interested in public sector performance audits in Victoria?

Usefulness of Performance Audits

3. What types of public sector issues have you most often written on?

4. What is/are the most relevant aspect(s) of performance auditing currently debated by politicians?

5. According to which criteria do you select the performance audits on which you report?

6. Which sources do you use when identifying and writing on public sector issues?

7. When writing about performance audits, do you have in mind a specific audience?

Performance Audit Impacts

8. What reactions to your reports on performance audits do you expect from the Parliament and its committees, the government, the public sector in general, citizens and other readers?

Changes made to Audited Organisations
9 What changes have you observed in the public sector as a consequence of performance audits?

Accountability Relationships

10 From your experience in reporting about performance audits, which relationship(s) can you identify among public sector organisations, auditors, ministers, Parliament/PAEC, media and citizens?

11 What role do you feel the media plays in holding public sector organisations accountable for their actions?
## Appendix 4: Interview participants

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>Code</th>
<th>Stakeholder group</th>
<th>Duration of interview (min.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>04/2017</td>
<td>MP1</td>
<td>Member of Parliament</td>
<td>59:13</td>
</tr>
<tr>
<td>2</td>
<td>04/2017</td>
<td>A1</td>
<td>SG Auditee</td>
<td>40:04</td>
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<tr>
<td>3</td>
<td>04/2017</td>
<td>A2</td>
<td>SG Auditee</td>
<td>51:02</td>
</tr>
<tr>
<td>4</td>
<td>04/2017</td>
<td>A3</td>
<td>SG Auditee</td>
<td>51:03</td>
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<tr>
<td>5</td>
<td>04/2017</td>
<td>A4</td>
<td>SG Auditee</td>
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<td>6</td>
<td>04/2017</td>
<td>A5</td>
<td>SG Auditee</td>
<td>46:44</td>
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<td>7</td>
<td>04/2017</td>
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<td>OT Auditee</td>
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<td>Journalist</td>
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</table>

**Average duration per interview** | **47:30**

Note: SG – State Government; LG – Local Government; OT – Other (e.g. associated entities, public bodies, independent budget sector agencies, waste and resource recovery groups, etc.).

39 Associated entities are private or non-for-profit organisations that deliver public sector services or programs through contracts.
### Appendix 5: Recommendation acceptance rates

<table>
<thead>
<tr>
<th>FY</th>
<th>Number of PAs</th>
<th>Number of recommendations</th>
<th>Accepted</th>
<th>Partially accepted</th>
<th>Rejected</th>
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<td>2009/10</td>
<td>26</td>
<td>153</td>
<td>N/A</td>
<td>N/A</td>
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<td>155</td>
<td>N/A</td>
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<td>2011/12</td>
<td>37</td>
<td>179</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<td>2012/13</td>
<td>28</td>
<td>411&lt;sup&gt;40&lt;/sup&gt;</td>
<td>386</td>
<td>94%</td>
<td>25</td>
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<tr>
<td>2013/14</td>
<td>29</td>
<td>482&lt;sup&gt;41&lt;/sup&gt;</td>
<td>464</td>
<td>96%</td>
<td>16</td>
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<tr>
<td>2014/15</td>
<td>25</td>
<td>217</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>2015/16</td>
<td>29</td>
<td>145</td>
<td>139</td>
<td>96%</td>
<td>N/A</td>
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</table>

Sources: VAGO (2015a and b) and PA reports tabled and published between 2009 and 2016.

---

<sup>40</sup> During 2012/13 performance auditors made 214 recommendations that included 411 specific actions to implement. Some recommendations included multiple elements (see recommendations listed in PA reports; some of them include multiple dot points). VAGO treats these individual elements as separate recommendations (VAGO, 2015a).

<sup>41</sup> During 2013/14, VAGO made 482 recommendations. In addition, there were 180 outstanding recommendations from 2012/13 (VAGO, 2015b).