THE IMPACT OF PERFORMANCE AUDIT:
THE NEW ZEALAND EXPERIENCE

By

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Performance audit, compared to the traditional financial and compliance audits, is a relatively new innovation that emerged amidst accountability concerns in the public sector. Economic crises, ministerial scandal and inefficiencies were among the impetus that led the public to demand better performance and greater accountability in the public sector, and performance audit was among the many responses to such demand. In New Zealand, performance audit is carried out by the Controller and Auditor General (the AG) under the mandate granted by the Public Audit Act 2001. Adapting the methodology from grounded theory, this study looks at the impact of performance audit on seven entities audited in 2006 by the AG. This study found that the entities were impacted through the manifestation of implemented audit recommendations and the attainment of performance audit goals. In particular, there is a high acceptance and implementation rate to the audit recommendations made in the seven audits. The implementation of accepted recommendations consequently led to the changes within the entities in terms of managerial practices, as well as internal systems and processes. In some entities, these changes were translated into performance improvement, where the entities experienced changes in the way that they carried out their operations. However, based on interviewees’ accounts being the auditees of the audits, most interviewees viewed performance audit as having a greater role for performance accountability compared to performance improvement. Whilst the auditees found the audit recommendations useful, the impact on performance in their view has not been significant. Rather, the auditees viewed performance audit as having a more important role as an assurance tool in terms of their accountability to the public.
# TABLE OF CONTENTS

List of Illustrations \hspace{1cm} vii

Chapter 1 – Introduction

Chapter Introduction \hspace{1cm} 1
1.1 Terms and Definition \hspace{1cm} 3
1.2 Research Background \hspace{1cm} 4
Thesis Structure \hspace{1cm} 7

Chapter 2 – Literature Review

Chapter Introduction \hspace{1cm} 8
2.1 International Emergence and Growth of Performance Audit \hspace{1cm} 8
2.2 Accountability and Performance in the Public Sector \hspace{1cm} 11
2.3 Approaches to Performance Audit \hspace{1cm} 15
2.4 Performance Audit as a Social Construct \hspace{1cm} 16
2.5 Gaps in the Literature of Performance Audit \hspace{1cm} 17
2.6 Problem Statement \hspace{1cm} 19
Chapter Conclusion \hspace{1cm} 20

Chapter 3 – Performance Audit

Chapter Introduction \hspace{1cm} 21
3.1 Emergence of Performance Audit in New Zealand \hspace{1cm} 22
3.2 Performance Audit in New Zealand \hspace{1cm} 23
  3.2.1 The Early Developments (1960s – 1970s) \hspace{1cm} 24
  3.2.2 A New Mandate, 1977 \hspace{1cm} 26
  3.2.3 Major Public Sector Restructuring (1980s) \hspace{1cm} 28
  3.2.4 Towards the New Millennium \hspace{1cm} 31
  3.2.5 Public Audit Act 2001 \hspace{1cm} 32
3.3 Performance Audit Methodology \hspace{1cm} 35
3.4 Research Statement \hspace{1cm} 37
Chapter Conclusion \hspace{1cm} 38

Chapter 4 – Theoretical Framework

Chapter Introduction \hspace{1cm} 40
4.1 Data \hspace{1cm} 42
  4.1.1 Sample \hspace{1cm} 43
  4.1.2 Data Sources \hspace{1cm} 45
4.2 An Adaptation of Grounded Theory \hspace{1cm} 50
  4.2.1 Sensitizing Concepts \hspace{1cm} 52
<table>
<thead>
<tr>
<th>Chapter Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.2.2 Data Collection</td>
<td>52</td>
</tr>
<tr>
<td>4.2.3 Coding</td>
<td>53</td>
</tr>
<tr>
<td>4.2.4 Memos</td>
<td>54</td>
</tr>
<tr>
<td>4.2.5 Concepts and Themes</td>
<td>57</td>
</tr>
<tr>
<td>4.3 Theoretical Perspective: Interpretivism – Symbolic Interactionism</td>
<td>60</td>
</tr>
<tr>
<td>4.4 Epistemology: Constructionism</td>
<td>61</td>
</tr>
<tr>
<td>Chapter Conclusion</td>
<td>63</td>
</tr>
<tr>
<td>Chapter 5 – Findings and Analysis</td>
<td>64</td>
</tr>
<tr>
<td>5.1 Performance Audit Reports and Official Documents</td>
<td>65</td>
</tr>
<tr>
<td>5.1.1 The Treasury</td>
<td>65</td>
</tr>
<tr>
<td>5.1.2 Foundation for Research, Science and Technology</td>
<td>67</td>
</tr>
<tr>
<td>5.1.3 Ministry of Agriculture and Forestry</td>
<td>73</td>
</tr>
<tr>
<td>5.1.4 Department of Conservation</td>
<td>80</td>
</tr>
<tr>
<td>5.1.5 Housing New Zealand Corporation</td>
<td>87</td>
</tr>
<tr>
<td>5.1.6 Ministry of Education</td>
<td>90</td>
</tr>
<tr>
<td>5.1.7 Ministry of Social Development</td>
<td>99</td>
</tr>
<tr>
<td>5.2 Interviews</td>
<td>101</td>
</tr>
<tr>
<td>5.2.1 Interview 1</td>
<td>101</td>
</tr>
<tr>
<td>5.2.2 Interview 2</td>
<td>104</td>
</tr>
<tr>
<td>5.2.3 Interview 3</td>
<td>106</td>
</tr>
<tr>
<td>5.2.4 Interview 4</td>
<td>108</td>
</tr>
<tr>
<td>Chapter Conclusion</td>
<td>111</td>
</tr>
<tr>
<td>Chapter 6 – Impact of Performance Audit</td>
<td>112</td>
</tr>
<tr>
<td>6.1 Summary of the Responses to the Audit Recommendations</td>
<td>113</td>
</tr>
<tr>
<td>6.2 Performance Improvement and Performance Accountability</td>
<td>121</td>
</tr>
<tr>
<td>6.3 Additional Insights into Performance Audit</td>
<td>127</td>
</tr>
<tr>
<td>6.3.1 Stakeholders of Performance Audit</td>
<td>127</td>
</tr>
<tr>
<td>6.3.2 Justification for the Audits</td>
<td>130</td>
</tr>
<tr>
<td>6.3.3 Performance Audit Methodologies</td>
<td>131</td>
</tr>
<tr>
<td>6.3.4 Performance Audit Process</td>
<td>132</td>
</tr>
<tr>
<td>6.3.5 Rapport</td>
<td>134</td>
</tr>
<tr>
<td>6.3.6 Auditor’s Expertise</td>
<td>136</td>
</tr>
<tr>
<td>Chapter Conclusion</td>
<td>137</td>
</tr>
</tbody>
</table>
Chapter 7 – Conclusion

Chapter Introduction 140
7.1 Findings 140
7.2 Future Research and Practice 142
7.3 Limitations of Study 143
Chapter Conclusion: Contribution of Study 143

References 144

Appendices 151
LIST OF ILLUSTRATIONS

Figures
Figure 1 – Definition of Economy, Efficiency and Effectiveness 4
Figure 2 – Chronology of Major Events 23
Figure 3 – Performance Audit Methodology:
   New Zealand Office of Auditor General 36
Figure 4 – Theoretical Framework 41
Figure 5 – Timeline of Relevant Dates 44
Figure 6 – Adaptation of Grounded Theory Methodology 52
Figure 7 – Framework of the Research Process 59
Figure 8 – Stakeholders of Performance Audit 128

Tables
Table 1 - Sample of Performance Audits 45
Table 2 - Capability to Recognise and Respond to Issues for Maori: Audit Recommendations 66
Table 3 - Administration of Grant Programmes:
   Audit Recommendations and Auditee Response 69
Table 4 - Managing Biosecurity Risks Associated with High-risk Sea Containers: Audit Recommendations and Auditee Response 75
Table 5 - Planning for and Managing Publicly Owned Land:
   Audit Recommendations and Auditee Response 82
Table 6 - Effectiveness of Programmes to Buy and Lease Properties for State Housing: Audit Recommendations and Auditee Response 88
Table 7 - Management of the School Property Portfolio:
   Audit Recommendations 93
Table 8 - Performance of the Contract Centre for Work and Income:
   Audit Recommendations 100
Table 9 - Summary of Auditee Response 114
Table 10 - Percentage of Recommendations Accepted and Implemented 116
Table 11 – Auditee Responses to Accepted Recommendations 117
Table 12 – Auditee Responses to Recommendations Not Adopted 118
Chapter One – Introduction

Chapter one provides an overview of the thesis. In particular, it introduces the concept of performance audit, provides a brief overview of the research and describes the structure of the thesis.

“Performance auditing as a generic activity covers a broad range of activity. Defining it is not easy. An institutional approach of defining it as what auditors or audit institutions do is probably most useful since the issues concerning performance auditing relate to the institutions in the first instance.” (Shand and Anand, 1996, p.59)

Chapter Introduction

New Zealand is a democratic country that rests under the system of constitutional monarchy. Under the system, the Sovereign is the head of State, and Government is formed from a democratically elected House of Representatives (The Parliament, 2010). The New Zealand Parliament is unicameral, where there is only one chamber and no upper house, and consists of the Sovereign and the House of Representatives (ibid). The Controller and Auditor General of New Zealand (the AG) is an Officer of the Parliament, who is independent of the Government but is answerable to the Parliament on matters of stewardship and public resources (Office of the Auditor General, 2010). In providing independent assurance to the Parliament as well as the public, the AG carries out statutory and discretionary work as specified by the Public Audit Act 2001, which includes performance audit. Historically, performance audit was introduced to provide assurance over accountability concerns in the public sector (Green and Singleton, 2009, p.107). At present, performance audit is gaining importance for its role of providing such assurance to the public.

Performance audit is carried out by the AG under the authority of Section 16 (1) of the Public Audit Act 2001 (the Act). The section specifies that:

The Auditor General may at any time examine

(a) the extent to which a public entity is carrying out its activities effectively and efficiently:

(b) a public entity’s compliance with its statutory obligations:
(c) any act or omission of a public entity, in order to determine whether waste has resulted or may have resulted or may result:
(d) any act or omission showing or appearing to show a lack of probity or financial prudence by a public entity or 1 or more of its members, office holders, and employees.

The Act allows for performance audits to be carried out on all public entities, with the exception of the Reserve Bank of New Zealand or any registered bank (Public Audit Act 2001, Section 16 (3)).

The Office of the Auditor General (the OAG)\(^1\) describes performance audits as examining “matters of efficiency and effectiveness, waste, probity, compliance with statutory obligations, financial prudence, or any combination of these” (OAG, 2009b). Performance audit serves as an assurance to Parliament on programmes and issues of management by public entities. In a report published by the OAG in 2009, the OAG described performance audit as follows:

“A performance audit can examine;
- How effectively and efficiently a public entity is working
- Whether a public entity is complying with its statutory obligations
- Any act or omission that might waste public resources; and
- Any act or omission that might show (or appear to show) a lack of probity or financial prudence by a public entity or one or more of its members, office holders, or employees.” (OAG, 2009a, p.5)

A Peer Review Team that reviewed the efficiency and effectiveness of the OAG reported that in 2007-08, the total estimated cost for the Performance Audit Group was around $2.4 million (OAG, 2008, p.50). This amount followed a significant increase in funding allocated to the OAG for performance auditing in 2004, which has also been reflected in a steady increase in the number of performance audits carried out, for example from 10 audits in 2004-05 to 15 audits in 2006-07. In addition, the Peer Review report records that most audits cost between $170,000 and $230,000 and generally take between 9 and 12 months to complete (ibid).

\(^1\) The title ‘Audit Office’ was used prior to the passage of the Public Audit Act 2001. Hence, ‘Audit Office’ will be used in this thesis in discussions of the OAG prior to 2001.
1.1 Terms and Definitions

Performance auditing has its own set of nomenclature, although different countries and academics use different terms to describe it. They include value for money audit, comprehensive audit, efficiency audit and operational audit. The different terms do not entail markedly different concepts, as most of them encapsulate auditing of a similar nature. In the earlier days of performance auditing however, very few writers attempted to find this common ground or elucidate what they understand by the auditing concept (Parker, 1986, p.6). A closer review into the usage and conceptual application of the nomenclature by Parker (1986) revealed that “the differences between these various terms are insignificant and that essentially they refer to a common form of auditing” (p.11). In a broad sense, this ‘common form of auditing’ concerns the economy, efficiency and effectiveness of public sector operations. The definitions and conceptual application of these three E’s differ across jurisdictions, largely depending on the mandate, respective AGs, and their interpretations of the mandate. According to Glynn (1987, p.5), the focal point of this divergence is in the term ‘effectiveness’. He stated that: “Effectiveness tends to be thought of in a variety of different ways; for example, cost-effectiveness, management effectiveness, effectiveness of the management information system, and the effectiveness of government programs.” In most countries, including New Zealand, the line is drawn on government policies, hence the term ‘effectiveness’ generally applies to areas of management accountability other than policies (ibid). Adopting the definition of economy, efficiency and effectiveness as used by the UK National Audit Office, Bourn (2007, p.57) presented the definitions of these aspects as in Figure 1.
The term used in New Zealand is ‘performance audit’, following the mandate specified by the Public Audit Act 2001, a term which this study also uses. It is worth noting that prior to the passage of the Public Audit Act, there were several other terms used in the literature of performance audit in New Zealand, in particular operational audit (Colquhoun, 2005) and value for money audit (Jacobs, 1998).

1.2 Research Background

This research places performance audit within the accountability and performance framework of the New Zealand public sector, particularly in terms of economy, efficiency and effectiveness. This activity is relatively new for the AG compared to his other mandates, arising from public demand (Green and Singleton, 2009, p.107) and concerns over non-financial aspects of public sector performance in the 1960s (Colquhoun, 2005). In the late 1980s there was a major public sector reform which shifted the principles underlying public sector practices. In particular, the application of New Public Management (NPM) doctrines subsequently heightened the focus over performance and accountability in the public sector. The three E’s became synonymous with the doctrine as economy, efficiency and effectiveness emerge as

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<tr>
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<th>Minimising the cost of resources used for an activity while having regard to appropriate quality</th>
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<tr>
<td>Efficiency</td>
<td>The relationship between outputs, in terms of goods, services or other results, and the resources used to produce them. An efficient activity maximises output for a given input, or minimises input for a given output and, in so doing, pays due regard to appropriate quality</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>The extent to which objectives have been achieved and the relationship between the intended impacts and actual impacts of an activity achieved.</td>
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dominant themes in the restructuring. With these in mind, public managers were given greater accountability for performance (Mulgan, 2001). The legal framework for the public sector was revised and new mandates introduced, for example the State Sector Act 1988, Public Finance Act 1989, Local Government Act 1989, and more recently Crown Entities Act 2004, in addition to the Public Audit Act 2001. A number of performance and accountability mechanisms were also introduced within this framework, in line with the principles of NPM such as performance audit and requirements to present Statements of Service Performance (SSP). New Zealand was not alone in embracing NPM and performance audit, but rather was part of an international movement which included countries like Canada, Australia and most of the Organisation for Economic Co-operation and Development (OECD) member countries (OECD, 1996).

The widespread adoption of NPM and performance audit attracted significant attention internationally. In June 1995, a symposium attended by OECD member countries in Paris discussed key issues relating to performance management and accountability within the NPM framework, specifically issues relating to performance audit. Among the broad areas discussed were the role of performance audit in NPM, the objectives and effectiveness of performance audit, and the association between performance improvement and accountability in terms of performance audit (ibid). The symposium focused on the different conceptual definitions, legislative arrangements and the application of the performance audit concept across the different OECD countries. The period between the 1980s and the 1990s saw a rise in performance audit literature through authors like Parker (1986), Glynn (1987), Jacobs (1998), and Guthrie and Parker (1999). Like the symposium, these studies also focused on the theoretical aspects of performance audit, the conceptual application in practice, and its development in specific contexts. Parker, Glynn and Guthrie and Parker for example, focused on performance audit in Australia. However, little was done to study performance audit in practice, as greater attention was given to the theoretical and conceptual aspects of performance audit as an innovation in the public sector.

The literature on performance audit generally agrees that it is a social construction, whereby its characteristics are largely constructed by contextual surroundings. For
example, influential groups or ‘epistemic communities’ play a vital role in shaping performance audit in a particular context (Jacobs, 1998). Jacobs suggests that performance audit was a ‘solution’ provided by the Audit Office (as an epistemic community) for a set of perceived ‘problems’ in the public sector, and this solution is ‘flexible and contestable’, defined by the problems of the day. Performance audit is also likened to a masquerade by Guthrie and Parker (1999) as the changing attitude and concepts of various groups “constitute the changes in masks and costumes that takes place between scenes in the drama, or changes in dramatic presentation from masque to masque” (p.328). These authors found that performance audit practice evolves over time according to the context that it is in, for example the political and economic moulds of a particular country. This dependency on context provides a significant area for research, as there is much to learn and understand at a particular time period, in a particular country. My study focuses on performance audit in New Zealand in the early 21st century, specifically focussing on seven performance audits carried out in 2006. It is expected that these performance audits will reflect the events leading to the practice in the present day, including the relevant legal, political and economic context of New Zealand.

This research aims to study the impact of performance audit on seven entities audited in 2006, by capturing the practices of performance audit in New Zealand. Whilst there has been a body of literature on performance audit towards the end of the 20th century, there have been very few studies on performance audit in New Zealand. Furthermore, these studies largely focus on theoretical aspects of the relatively new and emerging concept. Studying the impact of performance audits allows an assessment of the effectiveness of the implementation of the audit recommendations, subsequently the practicality and usefulness of this type of audit. It is important to note that such assessment should not depend solely on the number of recommendations implemented by the audited entities. Morin (2001) points out that AGs usually use this criterion to measure the success of performance audits although it indicates little of the actual impact and influence of the audit. She further questions; “Does the Auditor General make any real difference in public administration through VFM audit practice?” and notes that this has not been clearly answered in the literature (p.99). This research hence, seeks to answer the research question:
“What is the impact of performance audit on seven entities audited in 2006 by the New Zealand Office of the Auditor General?”

In answering the research question, research methods from grounded theory are adopted, although not in their entirety. Grounded theory is a methodology that builds a theory from data (Corbin and Strauss, 2008, p.1). However, since this research does not aim for theory building, only certain aspects of grounded theory methodology are adopted. In particular, this research seeks to gain knowledge through the data derived directly from practice, without imposing any a priori knowledge. Data in the form of performance audit reports, official documents and interview transcriptions are analysed for emerging concepts. The analysis involves note-taking and memo-writing in the earliest stages, and is extended to coding and conceptualisation at later stages. The analysis however, is not a straight forward process; instead it is an iterative process involving multiple data gathering, analysis, concept generation and questions over the concepts generated. At the end of the analysis, findings are presented in the form of themes that emerged, which provides valuable insights into performance audit practice and the impact that these audits have on the audited entities, thereby contributing to the current knowledge on performance audit.

Thesis Structure

The remainder of the thesis is constructed as follows. The next two chapters discuss relevant literature, as well as the emergence and development of performance audit, particularly in the New Zealand setting. Chapter four explains the theoretical basis of the research by outlining the framework and methodology adopted. At the heart of this paper are chapters five and six which present the findings of the studies, and the analysis and discussion of the findings. Chapter seven provides the conclusion and limitations of this research, and presents fruitful areas for future research on and practice of performance audit.
Chapter Two – Literature Review

Chapter two provides a discussion of literature on the international emergence and development of performance audit. It also identifies areas for further inquiry on performance audit, which this study then seeks to explore.

“…the high degree of independence necessarily accorded the Auditor General, combined with the contested and emerging nature of performance audit, will continue to make personalities and organisational culture important in this field. Proper consideration of these factors will remain central to any assessment of public sector performance audit.” (Hamburger, 1989, p.19)

Chapter Introduction

Performance audit is a relatively recent innovation introduced in many countries to assess matters of efficiency and effectiveness in the public sector. It is prevalent predominantly in democratic countries like the United States (US), the United Kingdom (UK), Canada, Australia and New Zealand in response to increasing public demand. This chapter looks specifically at what caused the international emergence, and subsequently the rise of performance audit. In doing so, the chapter discusses the dynamics of performance audit in terms of the mandate, approach and practice of performance audit in several democratic countries. The relative recency of the innovation has left some questions regarding performance audit unanswered, some of which this study will attempt to answer.

2.1 International Emergence and Growth of Performance Audit

The concerns over the efficiency and effectiveness of the public sector can be traced back to the 1960s in several democratic countries including New Zealand. In the literature, there were competing claims over the origins of performance audit, with several authors claiming it is an innovation of the US, whilst others claiming it as a Canadian innovation. For example, according to Green and Singleton (2009, 116):

“The United States General Accounting Office (GAO) was the pioneer of comprehensive auditing after the Second World War. Government spending
programmes, especially the military sphere, were assessed for the efficiency with which they used resources, and for the effectiveness with which they accomplished their objectives.”

However, Glynn (1985a, p. 113) on the other hand claimed that: “Canada was first to adopt VFM auditing, which together with regulatory audit requirements, is called in their terminology ‘Comprehensive Auditing’”. Despite this contradiction, there is a general agreement that increasing concerns over efficiency and effectiveness of the public sector were becoming apparent in the 1960s, consequently leading to the emergence of performance audit. In recognising the importance of government spending, the GAO for example, “devoted progressively more resources” to assessing efficiency and effectiveness during the 1960s (Green and Singleton, 2009, p. 116). In New Zealand, Colquhoun (2005) found that there were serious concerns about efficiency issues in local governments that led to ‘special investigations’ of local councils in 1964.

Concerns over government spending and changing public attitudes provided an impetus to the early traces of performance audit. In the UK for example, public expenditure was rising dramatically, “often by more than ten percent per annum” (Glynn, 1985a, p.114). Like the UK, New Zealand was also experiencing increases in government expenditure, which was added to by “ministerial scandal” and “departmental incompetence” (Skene, 1985, p.271). Skene further noted that these problems led to “public agitation at the inability of the executive to provide reasons for its policy choice and take responsibility for poor performance”. As a result of these concerns and ‘public agitation’, the public was increasingly demanding greater accountability for performance in public sector activities. Green and Singleton (2009, p.107) wrote:

“Indeed there was an upturn in public demand for information on the activities of public sector entities. In New Zealand and overseas people became less trusting of public servants and elected representatives, and started to call for greater transparency.”

The changing public attitude led governments towards greater emphasis on accountability to the public and ratepayers. Governments across the world started to respond to these demands for greater accountability by introducing performance audit mandates in their respective countries.
In the 1970s, governments responded further to the increasing public demand for greater efficiency and effectiveness by giving performance audit statutory backing. In Canada and New Zealand for example, a mandate for the Auditors General to carry out performance audit was introduced in 1977. The Canadian mandate was given by the Auditor General Act 1977, whilst the New Zealand mandate was introduced through the passage of the Public Finance Act 1977 (Glynn, 1985a). Australia was not far behind in this movement, having introduced the mandate for performance audit with the 1979 Amendment to the Audit Act 1901 (ibid). This development continued well into the 1980s and the 1990s, with more countries taking the step to recognise performance audit as part of their accountability arrangements. According to Bourn (2007, p.4):

“In more recent times a number of countries have introduced significant changes to the remit and operation of their state audit offices. A common objective has been to give statutory authority to carry out performance or value for money audits. In Italy for example, major new audit legislation was enacted in 1994 that enhanced the role of the Corte de Conti and facilitated the development of performance audit. In Ireland, the Comptroller and Auditor General (Amendment) Act was passed in 1993, extending the post’s remit and placing performance audit on a statutory footing.”

The statutory backing given to performance audit led Auditors General into a whole new turf, beyond their conventional financial and compliance audit. Morin (2001 p.99) suggested that:

“The advent of the VFM audit led auditors into totally new territory to them, for they were henceforth called on to evaluate just how economical, effective, and efficient the management of the organisation they audited actually was. Auditors had never before been so closely involved in the management of public bodies.”

The change in remit consequently entailed several benefits and risks to the Auditors General and the Audit Offices. According to Green and Singleton (2009, p.116), on the one hand the “expansion into new areas was invigorating, and could add to the weight and prestige of public offices”. However, on the other hand, it would also require appointment of external consultants and recruitment of new personnel with non-accountancy backgrounds, which could subsequently “cut into the resources available for attest and compliance auditing” (ibid). Green and Singleton further add that the expansion into economy, efficiency and effectiveness would require
development of performance indicators, which would be a challenging task, and misinterpretation of performance audit reports by ministers and government would consequently thrust auditors increasingly into the political arena. Nevertheless, despite these risks, the statutory mandate ensured the continual presence of performance audit in many democratic countries.

Performance audit and subsequently the changes to the remit of the Auditors General were coincidental to a wider international movement called the New Public Management (NPM). The adoption of this new public sector philosophy started to gain momentum in the 1970s (Hood, 1991). Similar to performance audit, the movement arose from concerns in the public sector, as well as rising public demand for greater accountability for performance (Mulgan, 2001). As a result, the philosophy entailed an emphasis on devolving responsibilities and hence accountability to public sector managers. Mulgan further adds:

“Under the new approach (NPM), control over public agencies was to be exercised in terms of *ex post* monitoring and performance measurement rather than through compliance with *ex ante* rules and directions. Emphasis was thus placed on the articulation of clear objectives and on developing accurate and independently verifiable means of assessing how far these objectives had been achieved. The more measurable and unambiguous the indicators of performance, the more agencies and managers could be held accountable in terms of results and therefore liberated from the deadening influence of input and process controls.” (p.27)

The change in the underlying public sector philosophy towards NPM triggered widespread public sector reforms in many countries, including New Zealand (Hood, 1991). With the rise of these reforms and performance audit, the notions of accountability and performance consequently took centre stage in many democratic governments, and were given greater emphasis than ever before.

### 2.2 Accountability and Performance in the Public Sector

The concerns over public spending, and consequently the widespread public sector reforms and introduction of performance audit mandates pushed the concept of public accountability into prominence. Glynn (1985a, p.119) reported that the Canadian definition of performance audit given by the Canadian Comprehensive Auditing
Foundation regarded “accountability relationships” as a crucial idea. The definition was based on:

“…the assumption that those who delegate responsibility should reasonably expect to receive, in return, an appropriate account of the discharge of the responsibilities conferred. It is an examination of the principles and practice by which responsibility is discharged by those who manage public funds.” (ibid)

Glynn added that “the introduction of value for money auditing in Canada was accompanied by a number of other institutional innovations, all of which were designed to increase the accountability of public sector organisations” (p.126). New Zealand provided a similar case where the introduction of performance audit to the mandate to the Auditor General was also closely linked to the notion of ‘accountability’. Skene (1985, p.271) went further by adding that: “In practical terms, its (Audit Office) involvement has gone some way towards redefining the concept of accountability for bureaucrats responsible for public spending”.

Indeed the concept of accountability was redefined by the significant changes in the public sector. Glynn (1996) found that changes brought about by NPM and performance audit were allied to the “changes in the nature of accountability” (p.128). This is particularly the case in areas of performance audit where the expanded remit of the Auditors General reflected the accountability of public sector managers beyond traditional financial and compliance auditing. With the significant changes in the public sector, “public accountability is thus considered to be a broader concept than financial accountability…The auditor’s role would therefore seem to be that of ensuring that management processes and accountability are clearly linked” (p.129).

This view is supported by Roth (1996, p. 253) who noted that:

“In the past, employers were, in effect, held accountable for their compliance with rules and procedures. Now that employees are being asked to achieve results and are only given broad boundaries within which to make decisions, they should be held accountable for the results achieved with the resources entrusted to them.”

It is therefore not surprising that the role and goals of performance audit were directly targeted at accountability of the government and public sector managers towards the public. On the role of performance audit, Glynn (1985b, p.18) suggested that:
“Accountability in the public sector occurs when both politicians and the public at large are assured that the public funds are being spent efficiently, economically and on programmes that are effective. VFM auditing assists this process by reporting upon management’s performance at both central and devolved government levels.”

Glynn’s sentiments on the role of performance audit was echoed by Morin (2001) who emphasised the importance of trust and confidence of the public, and also the importance of the Auditors General in keeping that trust and confidence with the public administration. She advocated for the central role of Auditors General and performance audit to maintain the trust and confidence in terms of the accountability in the public sector. She noted that:

“…their (Auditors General) work may, from time to time, negatively affect public trust in a particular institution or administration, but the very existence of this work and its ability to examine and report publicly and independently should give the public some assurance concerning the overall system.” (p.99)

She further added:

“Auditors General, through VFM audits performed in public organisations, represent, in a way, citizens’ voice in trying to induce changes in those organisations. To do so, as guardians of the public purse, auditors disclose wastes of public funds hoping that better management practices in the management of government will occur after the audit.” (p.115)

These roles of providing assurance on accountability matters and creating ‘better management practices’ reflected the overarching goals of performance audit.

According to Barzelay (1996), there are two “related, but not identical” (p.40) goals of performance audit, namely performance accountability and performance improvement. However, which one of the two is the primary goal remains arguable.

Barzelay wrote:

“NPM doctrines would seem to suggest that the principal goal of performance auditing should be performance improvement rather than accountability. As NPM doctrines are not universally embraced however, it seems better to take on board only the uncontroversial goal of performance accountability.” (p.20)

Performance accountability emphasises the “accountability relationships” as explained by Glynn (1985a, p.119), hence “is concerned with establishing and operating proper relationships between government organisations and their principals so that the latter can enforce responsibility for performance on their agents”
(Barzelay, 1996, p.40). Performance improvement, on the other hand, concentrated on “achieving desired changes in efficiency and effectiveness (and other dimensions such as performance management capacity)” (ibid). Although theoretically it is easy to separate these concepts, this is not the case in practice. It is difficult to isolate the achievement of performance accountability and performance improvement through performance audit. The relation between performance accountability and performance improvement further adds to the difficulty in isolating the achievement of each goal in practice.

In the literature, there are competing views on the relation that performance accountability and performance improvement share. Barzelay (1996) for example, suggested that there is a trade off between these two goals, whilst Roth (1996, p.249) argued that “it is possible to have improved performance and enhanced accountability in government”. Upholding both goals at the same time was argued to be a challenge because they are claimed to be competing concepts. In particular, Barzelay (1996, p.40) argued that the concepts are not synergistic and hence cannot be pursued simultaneously. On the one hand, negative publicity of performance audit reports may support the goal of performance accountability, but at the same time may create managerial defensiveness and hence hinder performance improvement. However, on the other hand, auditors being closely involved with management of the public sector advances the goal of performance improvement, but may risk crossing the fine line of auditor independence and consequently impairing auditor’s capability in supporting performance accountability (ibid). In addition, Barzelay also added that:

“…even when a move that benefits performance improvement has no direct negative effect on performance accountability, the two goals will still be in tension owing to the fact that one set of activity will tend to crowd the other if they both draw upon the same pool of resources.” (ibid)

However, Barzelay’s view was not shared by Roth (1996) who postulated that both goals can be achieved synergistically. Roth’s argument centred on the importance of the achievement of results, which will enable the achievement of both performance accountability and performance improvement. In particular, he argued that holding public managers accountable for achieving results is effectively holding public managers responsible for performance improvement. Despite these differing views in
terms of the relationship between the two goals of performance audit, both authors did not offer evidence from practice to support their argument. A study into the achievement of performance audit in practice therefore, would contribute to the debate on the relationship of performance accountability and performance improvement, and consequently improve understanding of the milestones that performance audit has achieved since its emergence.

2.3 Approaches to Performance Audit

Apart from redefining accountability and bringing about goals for performance accountability and performance improvement, the rise of performance audit also entailed different approaches across different countries (Glynn, 1985a; Shand and Anand, 1996; OECD, 1996). These different approaches centred on the focus and emphasis of Auditors General in carrying out performance audit. The New Zealand Audit Office for example, “examine selected areas or programmes within an organisation” by examining “relevant statutory obligations, policy aims that arise therefrom and the planned tasks that have been taken to implement policy aims during the period under review” (Glynn, 1985a, p.121). The Canadian Auditor General on the other hand, advanced performance audit “as a means of improving performance” (OECD, 1996, p.81). In doing so, the Canadian approach placed greater emphasis on reviewing results “rather than systems and procedures in making its assessments” (ibid).

The different mandate given in different jurisdictions, as well as the different approaches to performance audit should consequently lead to different practices of performance audit. However, currently there is limited information documented in this regard. In undertaking a comparative study of performance audit across different jurisdictions, Glynn (1985a, p.113) noted that his findings “discuss mainly the philosophy and recommended techniques of undertaking performance audit”. He added that; “…little documentary evidence is available on what actually happens in practice. Therefore, an important caveat is that there may be wide divergence between the recommended approaches and actual practice” (ibid). Hence, although the different approaches to performance audit have garnered much interest in the literature, very little work was done to study performance audit in practice. This area
is important, particularly in assessing the achievement of performance audit against the expectations set during its international emergence and recognition.

2.4 Performance Audit as a Social Construction

The varied approaches to performance audit demonstrate its nature as a social construct. In particular, performance audit displays traits of the economic and political concerns surrounding it. Previous studies looking particularly at the development of performance audit confirmed this constructionist nature of performance audit (Hamburger, 1989; Jacobs, 1998; Guthrie and Parker, 1999). However, different processes of social construction were proposed by different studies, reflecting the influence of context on performance audit. Hamburger (1989) for example, places emphasis on the role of the Auditor General of the Australian Audit Office (AAO) in shaping the direction and role of performance audit in Australia between 1974 and 1987. He does not however dismiss the importance of other institutional factors like internal management changes and independent external report on the AAO. Whilst the influence of the players in the process moulds performance audit within that setting, a later study found that it is the interaction of these players that play as the key determinant of the nature and role of performance audit (Guthrie and Parker, 1999). In studying events that occur between 1973 and 1998 around the Australian National Audit Office, Guthrie and Parker likened the evolution of performance audit with a masquerade, where in the ‘dramatic play’, “the sponsors, actors and audience continually create and revise the execution of the drama” (p.327). While agreeing to the contestable role of the players, Jacobs (1998) however, opted to present the performance audit scene in a different manner. Adopting an approach from public policy, performance audit is seen as a solution to the problem defined by the Audit Office. Studying the events between 1975 and 1997 in the New Zealand public sector, Jacobs argued that the Audit Office had to compete for opportunities with other ‘epistemic communities’ like the Treasury and the State Services Commission in defining the problems and subsequently providing solutions to the executive government. Despite these differences in view however, this constructionist nature

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2 Hamburger (1989) and Guthrie and Parker (1999) used different names in their studies, but both Australian Audit Office and Australian National Audit Office used in their studies represent the same audit institution.
proposed by prior literature supports the importance of continual study into performance audit, as it is evidently vulnerable to changes in its surrounding environment.

2.5 Gaps in the Literature of Performance Audit

Being a relatively recent innovation, there has been increasing interest in the literature regarding performance audit. For example, there were a number of studies undertaken to review the different mandate and approaches across different countries, which include Glynn (1985a), OECD (1996) and Shand and Anand (1996). The 1996 symposium held by the OECD member countries mentioned in Chapter 1 also offered comprehensive discussion on issues pertaining to the mandate and application of performance audit. However, as Glynn (1985a, p.113) noted, these studies tended to focus on the “philosophy and recommended techniques” adopted in embracing the new concept. In addition, there were also longitudinal studies carried out to study the development, and consequently the nature of performance audit. Jacobs (1998) and Guthrie and Parker (1999) in particular, found performance audit to be socially constructed, in which its surrounding environment will have influence in practice. Being a social construct also means that over time the dynamics of performance audit will change to adapt to the evolving political, economic and social climate. This will in turn, be different across the different countries adopting performance audit as each country is faced with its own circumstances. It is therefore, crucial that studies in this area continue to maintain and enhance the current knowledge base.

There are currently limited studies that look at performance audit in practice. A recent study carried out by Morin (2001) noted that the improvement brought about by performance audit in practice has actually never been empirically tested (p.99). Her study, which focused on the influence that performance audit recommendations had on performance improvement of audited entities, found that “four of the six audits analysed were not very successful” in influencing the auditees through the audit recommendations (p.110). She thus argued that the number of recommendations should not be the measure of audit success, as the number of recommendations accepted do not reflect the influence or impact that performance audit has on the auditee. Her views echoed an earlier view advanced by Hamburger (1989, p.17), who
suggested: “A 75 percent acceptance rate (of recommendations) might not imply success, for example, if the rejected recommendations were the most important”. These arguments are important given that Auditors General typically follow up on the audits that they have carried out on the basis of recommendations accepted. A Follow-Up Report done by the New Zealand OAG for example (OAG, 2009a) largely draws their assessment on the basis of the acceptance rate of the audit recommendations. In particular, the Office found that, for the fourteen performance audits that they carried out on in 2007, the number of recommendations implemented was nearly 94% (p.7). However, such assessment provided no answer as to how the implementations of these recommendations impacted the auditees. Furthermore, as Morin (2001, p.102) suggested:

“It would be worthwhile to go further and explore why, for instance, managers have accepted and implemented auditor’s recommendations: is it because they believe that the auditor’s recommendations were in the best interest of the organisation, or is it because, by doing so, they avoided considerable problems for themselves and their organisation.”

A few studies in the literature have looked at the aspect of performance audit impact, and in most cases as part of broader issues studied. One of the few examples is a study done by Hatherly and Parker (1988), which looked at the actual outcomes of performance audit in terms of the audit objectives, audit report format and auditee responses. They stipulated that the variant approaches undertaken by the Auditor General of the Australian Audit Office (AAO) and Victorian Auditor General (VAG) appeared to result in different actual outcomes in terms of auditee acceptance or rejection of the audit recommendations, and hence left different impact on the auditees. Based on their sample, Hatherly and Parker also found that the acceptance rate on the recommendations by the AAO was 57%, whilst the acceptance rate for the VAG was 69% (p.34). Another insight was shared by Shand and Anand (1996) on the effects of programme evaluations conducted by the Office of the Comptroller General of Canada on the auditees. They noted that “over 80% of evaluations led to no substantial or visible programme change” (p.74). In addition, as aforementioned the study by Morin (2001, p.110) found that “four out of the six audits analysed were not very successful” in influencing the auditees, implying that these audits left very little impact on the auditees. Morin also went a step further by stating: “This comes down
to saying that VFM audits of public administrations performed by auditors can be practically exercised in futility” (ibid).

Prior literature concerning the impact of performance audit therefore, seems to question the impact of these audits in practice, particularly on the auditees. Nevertheless, the literature generally acknowledged that more can be studied in the area, a call which this study seeks to answer. Hatherly and Parker (1988) for example, noted that their study was a “limited inference” (p.37) which provided “preliminary evidence as to certain apparent outcomes of performance audit” (p.21). On this basis they concluded that: “Given the paucity of available research results relating to performance audit operations and impact, this study represents but a first step in an urgently needed field of investigation” (p. 39). The need for more research into the impact of performance audit was supported by Trodden (1996. p.162) who states: “…how to measure the success of performance audits is an area that needs greater attention in the (Inspectors General) community”. Shand and Anand (1996) however, warned that it would be a difficult task. Measuring the impact of performance audit will not only be dependant on interpretations, but is also exposed to various other variants that may also impact the auditees and the audit subject. Despite this difficulty, it is however an area worth exploring, given the dearth of current studies on the impact of performance audit.

2.6 Problem Statement

These issues pertaining to the practice of performance audit clearly demonstrate that there is much to learn from it. My study, therefore, aims to provide invaluable insights into performance audit practice, particularly in New Zealand in the early twenty first century. It looks at how performance audit carried out by the OAG impacted seven audited entities in 2006. This area is currently largely unexplored, as performance audit in practice has received very little attention from academia. My study therefore, seeks to improve the knowledge of performance audit, particularly on the impact that it has on the auditees. It is hoped that the results of this research will contribute to more fruitful debates to enhance the impact of performance audit in the public sector, consequently contributing to the current knowledge base of performance audit.
Chapter Conclusion

The literature review highlighted important characteristics and dynamics of performance audit. In particular, its emergence over prevailing concerns in the public sector created an emphasis on accountability and performance, which subsequently led to statutory recognition of performance audit in many democratic countries, including New Zealand. Coincident to the international rise of performance audit was a widespread public sector reform brought about by a new philosophy, NPM, which together with performance audit redefined the concept of accountability in the public sector. These changes within the public sector set the role of performance audit to providing assurance to the public on the economy, efficiency and effectiveness in the public sector. In doing so, performance audit is not only targeted at improving performance, but also in enhancing public accountability through the reporting of public activities in terms of economy, efficiency and effectiveness. However, there were competing views regarding the relationship between accountability for performance and performance improvement. To contribute to this debate, a closer look into the achievement of these goals in practice is needed. Furthermore, given that performance audit is viewed as a social construct, there is a need for continual study on performance audit, particularly in the area of its practice where studies have been very limited. The limited studies on this area found that there were misconceptions regarding the acceptance rate of audit recommendations and actual improvement in performance. There is to date, very little evidence offered on whether performance audit has achieved what it aspired to offer. Therefore, more attention needs to be given to the achievements of performance audit in practice, particularly because the dearth of studies in this area widens the knowledge gap between practice and the academia. My study on performance audit practice hopes to narrow this knowledge gap by contributing insights from practice, particularly in terms of the impact that performance audit has on the auditees.
Chapter Three – Performance Audit

Chapter three discusses the emergence and development of performance audit in New Zealand. How performance audit emerged and evolved is imperative to this study as it will aid greater understanding of the current practice of performance audit.

“We realize that, to understand experience, that experience must be located within and can’t be divorced from the larger events in a social, political, cultural, racial, gender-related, informational, and technological framework and therefore these are essential aspects of our analyses.” (Corbin and Strauss, 2008, p.8)

Chapter Introduction

The importance of performance audit is generally overlooked due to its relatively recent existence. However, it is gaining recognition over time as emphasis on performance improvement and accountability mounts and the public service evolves into a new era. Bourn (2007, p.2) notes that the modern public administration is a shift away from state control to a higher degree of privatisation and market control. Aligned with this shift is greater emphasis on public accountability, reflecting the behavioural change of public consumers as well as the devolvement of accountability from the state to public sector managers. This shift is aligned with efforts made by AGs to promote reviews on systems, programmes and output of public entities, both at central and local levels. Several decades ago however, the expansion of such reviews was not possible due to the inward focus of the public sector (hence dearth of performance indicators), lack of skills and resources, and most importantly, the absence of a mandate. The development of audit mandates into efficiency and effectiveness of programmes started around the 1960s (Shand and Anand, 1996), and reached its pinnacle around the late 1970s and early 1980s.

As discussed in Chapter 2, historically the audit mandate for the AG was expanded to meet the increasing demand for accountability in the public sector. This case is true in many countries including New Zealand, where traditional financial and compliance
audits were deemed insufficient to match the changing scene of the public sector. As Skene (1985) explains;

“The inability of traditional legal methods of budgetary and financial control to cope with vastly increased budgets has resulted in moves to transform the budgetary process and shift the focus from questions of legality to issues of management.” (p.285)

These issues of management have been known to incorporate the elements of widely termed ‘economy, efficiency and effectiveness’. Following this development, many countries extended the remit of their Auditors General to include an audit of the economy, efficiency and effectiveness of public entities.

3.1 Emergence of Performance Audit in New Zealand

As discussed in the previous chapter, the concept of performance auditing in the public sector has been around since the 1960s, pervasive in countries like Canada, the United States (US), the United Kingdom (UK), Australia and New Zealand. Among the early adopters was Canada, a county which Pallot (1991) claimed to be the leader of the technology in Westminster-style governments. The passage of the Auditor General Act 1977 introduced a new mandate for performance auditing in Canada, and New Zealand’s approach has been said to follow closely that of Canada’s (Glynn, 1985b). For example, in the 1980s there were exchanges of ideas and personnel between the OAG and Canada’s federal Audit Office which assisted in strengthening of the practice in New Zealand (Pallot, 1991). Although this might seem to imply that the concept arrived in New Zealand around 1970s – 1980s, the literature suggests that this might not be the case. Traces of performance auditing can be found earlier amidst concerns over efficiency in local governments. The concern was later developed and embedded in central government departments and the practice was consequently given statutory authority.
3.2 Performance Audit in New Zealand

Figure 2
Chronology of Major Events

1964: Two ‘special investigations’ carried out on local councils
1975: National government took office
      The appointment of Shailes as the AG
1983: The appointment of Tyler as the AG
1984: Labour government took office
      New Zealand public sector reform begins
1988: Strategos Report
      Inquiry into Officers of Parliament
1990: National government took office
1992: Appointment of Chapman as the AG
1994: Chapman’s resignation
1995: Appointment of Macdonald as the AG
1998: Inquiry into Audit Office Legislation by the Finance & Expenditure Committee
1999: Labour government took office
2000: Public Audit Bill presented to the Parliament
2002: Appointment of Brady as the AG
2004: Increment in Funding for Performance Audit, 5 Year Strategic Plan
2009: Appointment of Provost as the AG

Figure 2 outlines significant events relevant to the emergence and evolvement of performance audit in New Zealand. Unlike statutory financial and compliance audits, performance audit is a relatively new concept. In New Zealand, there was no immediate acceptance of this new form of auditing, with initial resistance coming from politicians and other control agencies like the Treasury. As illustrated in Figure 2, there was a chain of events that led to performance auditing as it is today, and understanding these events would subsequently inform an understanding of the way that performance audit is practised.
Performance auditing in New Zealand can be traced as far back as the 1960s, although at that time it was more of ‘special investigations’ rather than a formal audit (Colquhoun, 2005). Colquhoun found that the Audit Office began to seriously consider efficiency issues in local government in the 1960s, following the report by the Public Expenditure Committee (of the House of Representatives) in 1963\(^3\). There were two such ‘special investigations’ carried out on the local councils in 1964; the first reviewing wage and salary systems, and the second reviewing the use of motor vehicles (ibid). During this time period however, there was no legal mandate for the AG to carry out reviews on local councils or any government departments. Quite the contrary, the restrictive language of Public Revenues Act 1956 gave no authority to the AG to conduct such reviews (Jacobs, 1998).

Many of the major developments towards a more formal performance audit occurred in the 1970s. This period of time witnessed significant efforts towards a reform, both in the public sector and within the Office itself. At about the same time there was also a global movement towards a focus on efficiency and effectiveness, which to some extent influenced the developments in New Zealand. Canada, US, Sweden and Australia in particular, started to formally adopt performance auditing in the 1970s (Glynn, 1985). Colquhoun (2005) attributed the conceptual impetus to adopt performance audit in New Zealand to similar developments in the US public sector, and Jacobs (1998) claimed the influence of Canadian practices in New Zealand’s performance audit. In addition to these external influences, the impetus towards performance auditing can also be found from within the system. The literature on New Zealand public sector attributed the push towards this technology to the ruling government and the AG himself (Skene, 1985; Jacobs, 1998; Colquhoun, 2005). However, there are no common

\(^3\) According to the author, the Committee holds the Audit Office responsible for improving efficiency in local councils and suggested that should the councils fail to satisfy the review, the office should report this to the Parliament.
grounds in these studies as to who was the main player that pushed for performance auditing in New Zealand.

These studies recorded two important events in 1975 that occurred with regard to the emergence of performance auditing in the country. The first event is the general election that saw a transfer of power from a Labour to a National government and the second event is the appointment of AC Shailes as the new AG. When the Labour government was still in office, the Minister of Local Government, Henry May visited South Australia in 1973 and was inspired to introduce “efficiency inspections” in New Zealand local councils, like the ones he found in South Australia (Colquhoun, 2005). May was driven by the concern over an increasing call for additional funding from the local councils and the ‘perceived’ inefficiency believed to be prevalent in the local government sector (ibid). When National took office, the focus of the government changed from welfare of the state to cutting costs across government departments (Jacobs, 1998). Jacobs links this focus with the economic bust that follows a booming economy in the previous decade. Due to this desire to cut costs, both Skene (1985) and Jacobs (1998) contend that the National government was very supportive and influential in the establishment of performance audit in New Zealand.

Prior to the appointment of Shailes as the AG in 1975, there were already considerable developments within the Audit Office. Efficiency in both central and local level had become among the main concerns of the office since the 1960s and well into the start of the next decade, as suggested by Skene (1985) and Colquhoun (2005). For example, in 1972 the AG commented on “the failure to examine faulty machinery thoroughly before purchase and even on low breeding percentages caused by bad management on government farms” (Skene, 1985, p.274). The developments were however constrained by the limited staff to conduct such audits, and more importantly by the “absence of statutory authority for other than financial and compliance audit” (ibid). Upon his appointment, Shailes was determined to develop and strengthen the OAG by pushing the performance audit agenda forward. Not only did he broaden audit practices (despite the restrictive language of the Public Revenues Act),
he also pushed for a wider statutory authorisation during the redrafting of the Act. Due to Shailes’ significant influence in these developments, Skene (1985) attributed much of the emergence of performance auditing to the AG himself.

There was however, a minor obstacle for Shailes soon after he took office. Foreseeing pressure to cut costs with the election of National government, the State Services Commission established its own management audit unit (Skene, 1985). This created reluctance on the part of the auditors as departments could not be expected to accept two reviews, although they were slightly different in approach (ibid). Notwithstanding this setback, Shailes and the Audit Office continued to push for further developments on performance audit for the public sector.

3.2.2 A New Mandate, 1977

To a certain degree, Shailes’ efforts were successful in that he was able to shift the focus of the Audit Office from purely financial and compliance audits to include efficiency and effectiveness of management in the public sector. He was also successful in achieving statutory authority to conduct performance audits with the passage of Public Finance Act 1977. These favourable developments however, met further setbacks that limit the development of performance audit intended by Shailes.

The enactment of the Public Finance Act 1977 at long last provided the legal mandate to the AG to conduct performance audits on public sector entities. During the redrafting of the 1956 Act, Shailes had worked closely with the Treasury to ensure that when the new legislation became law, the AG would be “left unrestricted in determining its interpretation” (Skene, 1985, p.276). There have been differing opinions in the literature regarding Section 25 (3) of the 1977 Act that specifies the mandate. Skene criticised the mandate for being too broad and failing to address the confusion surrounding the new concept. His concern was about the ability of the AG to question policy effectiveness and that such reviews can proceed “without the interest or the guidance of the Parliament” (p.274). Jacobs (1998) had similar concerns as the
mandate allows the AG to hold politicians accountable, which led him to describe the Act as “the most radical innovation in the function of the AG since the establishment of the office in the 1840s” (p.348). These concerns however were not shared by Colquhoun (2005). He acknowledged the legislative authority provided by the new Act, however suggested that it only made “minor differences to the existence and process of operational audits in local governments” (p.36), in sharp contrast with the “radical innovation” posited by Jacobs (1998). What Colquhoun (2005) thought changed was the Audit Office’s approach to performance audit, as the authority granted allows the office to exert its power on inefficient and ineffective local councils that did not take up suggested reviews.

Although the 1977 Act was a huge step forward for performance auditing in New Zealand, there were several problematic areas that restricted its further progress. Much of these problems were identified by Skene (1985). Lack of departmental objectives, performance indicators and output measurement were the main problems encountered by the Audit Office when performing the efficiency reviews. There were very few departments that clearly stated their objectives and performance indicators, whilst a majority were still reluctant to state these explicitly. Most departments also had an input orientation of performance when a successful performance audit necessitates the adoption of an output orientation. A review undertaken on the Education Department’s pre-school policy for example, wasn’t able to provide a conclusion due to insufficient performance measures (ibid). The problem with lack of staff and skills continued to preoccupy the office. The Audit Office was subjected to a staff ceiling imposed by the government and the right skills to conduct this relatively new practice were not available. Another challenge was on the part of the government departments and the local councils who showed reluctance in accepting advice from the Audit Office. There was an attitude that deemed efficiency reviews as irrelevant to day-to-day operations, and that there was no

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4 Departments like Social Welfare, Justice and Education would find it practically difficult to develop objectives and performance measurements (Skene, 1985).
need for improvement in service performance and delivery\(^5\). However, notwithstanding these hurdles, several efficiency reviews were undertaken by the Audit Office in between the late 1970s and early 1980s. In 1974, performance audit formally began in New Zealand, where it was conducted on two local authorities (Colquhoun, 2005). Between 1976 - 1982, there were thirteen reviews undertaken on local authorities, set against the management criteria published by the Audit Office (Skene, 1985).

### 3.2.3 Major Public Sector Restructuring (1980s)

The 1980s brought significant reforms in the New Zealand public sector. There was a wave of public sector reform occurring elsewhere in the world, a movement commonly known as the New Public Management (NPM) in the UK or “managerialism” in Australia (Guthrie and Parker, 1999). According to Hood (1991), the label NPM is a loose term which encompasses “a set of broadly similar administrative doctrines which dominated the bureaucratic reform agenda” in many countries in the late 1970s. For New Zealand a significant part of the reform occurred when the fourth Labour government took office in 1984, along with a strong influence from the Treasury. The movement was driven by “fiscal imperatives” and “the quest for greater accountability of the bureaucracy and the political executive” (Boston, 1991, p.1). These were due to the state of the country at that time which was described as bad and in an “economic bust” (Jacobs, 1998).

As the name suggests, NPM brought a new idea for management in the public sector. It entails changing the public sector to operate more like a business, exerting greater emphasis on efficiency and effectiveness, and “letting the managers manage” (Mulgan, 2001). Underlying these changes is the idea of greater autonomy for public sector managers and the aim to enhance the public accountability framework. The central concern of the new movement therefore was on the value of taxpayers’ money and the improvement of economy, efficiency and effectiveness in the public sector. This was seen as a shift from

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\(^5\) Skene (1985) attribute this attitude to the widespread assumption that existing policies will remain and that increment of resources will continue being received by the departments.
the prior concept of “accountability for processes” to “accountability for managing outcomes” (Hoque, 2005), hence the catchphrases “managing for results” and “letting managers manage” (Mulgan, 2001). This approach was to a great extent consistent with the concerns that prevailed in the Audit Office in the 1970s. More specifically, both NPM and the Audit Office put a very strong emphasis on accountability, efficiency and effectiveness matters. Perhaps due to this strong similarity, performance audit started to gain its place in the country in the 1980s.

Notwithstanding the massive scale of the reform, New Zealand has been lauded for the remarkably consistent, comprehensive and speedy restructuring. Major structural, organisational and management changes were made both at the central and local level (Boston, 1991). For example, the enactment of the Public Finance Act 1989\(^6\) required public sector entities to adopt a new accrual accounting regime, a shift from the previous cash accounting, also requiring the entities to comply with private sector accounting standards (Jacobs, 1998). The 1989 Act marks a significant milestone of the reform as it brings radical changes to New Zealand public financial management. In addition, it also automatically places New Zealand at the frontiers of public sector reform, being among the first governments to adopt accrual accounting.

In 1983, Brian Tyler was appointed as the new AG replacing Shailes. Tyler had a slightly different focus compared to Shailes, but he was also keen on developing performance audit further. Unlike Shailes, who developed performance audit to strengthen the Audit Office, Tyler used performance audit as a tool for public accountability. In 1986 his office established a designated group specifically for the purpose of conducting performance audit (Jacobs, 1998). This establishment allowed non-accounting professionals like engineers and policy experts to be involved in the audits, hence further developing performance audit.

\(^6\) With the enactment of the 1989 Act, the AG was now governed by this Act. In the new legislation, Part II of the 1977 was left intact. The part sets out the responsibilities and roles of the AG and the OAG (Pallot, 1991).
However, despite this favourable turn for the Audit Office, there were conflicts that clouded the office and some desires to restrain the powers of the AG in conducting performance audit. During the public sector reform, there were other influential groups that were fighting for their jurisdiction in the public sector. In some cases, there was a duplication of control by two or more agencies, which led to conflicts between the agencies. For example, among the strong voices during these reforms was that of the Treasury, and Jacobs (1998) contend that their influence was so significant that “they effectively became the creators of Labour’s political-economic policies” (p.352). The Treasury was not supportive of performance audit, as they thought it had traces of control and influence of the Parliament and this was deemed inconsistent with the commercial orientation of the reforms (Green and Singleton, 2009). This concern might stem from the fact that under the existing legislation, the AG was not yet an Officer of the Parliament, and his independence had not been made clear in the mandate. Some bold comments made by Tyler also strained the relationship between the Audit Office and some politicians. For example, in 1988 Peter Neilson, who was the Associate Minister of Finance at the time, contemplated suing the AG due to the AG’s bold comments over public spending on tax advertisements (Pallot, 1991). Apart from the public disagreement between Tyler and Neilson over the government spending, in 1990 Tyler also criticised political spending on MP’s postage, travel and communications (Jacobs, 1998). Not surprisingly, this was not well received by the politicians, causing the desire to restrict the mandate of the AG and to end performance audit. There was also conflict with regard to the legitimacy demonstrated by the Audit Office, which was somewhat stained by a report prepared by Strategos Consultants in 1988. The Finance and Expenditure Committee (FEC) commissioned Strategos to review the Audit Office and the report was not in support of either the Audit Office and performance audit (Pallot, 1991). The report suggested the Audit Office was no longer needed, and even if the Audit Office continued to exist, performance audit should be removed because it is a waste of time and money (Jacobs, 1998). Although

7 On the grounds that most audits could be contracted out to the private sector, and that other functions were either covered by State Services Commission and Treasury functions or by the new reporting requirements.
this report was later found to contain numerous flaws, it to some extent sparked controversy over the role of the AG and his office.

3.2.4 Towards the New Millennium

The developments in performance auditing in the 1980s were sustained despite the conflicts that surrounded the Audit Office, and it continued to strengthen towards the new millennium. Jacobs (1998) described the period into the 1990s as the time of further growth and consolidation for performance auditing in New Zealand. There is however, a striking lack of New Zealand literature relating to performance auditing in this period. An interesting twist occurred in this decade, as there were three AGs that were in office within the ten years. Tyler held office until 1992, and he was replaced by Jeff Chapman who later resigned in 1994, and it was not until April 1995 that David Macdonald was appointed as the new AG.

The AGs all had a slightly different approach to performance auditing, and in that regard a different influence on the development of the practice. Unlike Tyler, Chapman did not want to use performance audit to criticise government actions, instead working closely with the Parliamentary Select Committees (Jacobs, 1998). He shifted the review for accountability emphasis to consulting for revenue, perhaps deeming it more consistent with the business orientation of the newly reformed government. Chapman’s role as the AG however, was short-lived due to the serious allegations of financial mismanagement and fraud which led him to resign merely two years after assuming office. Unlike Chapman, Macdonald, who took office in 1995, was supportive of the original emphasis on performance auditing and made important contributions to its development (Green and Singleton, 2009). His approach was quite different from Tyler’s (who was also supportive of the audit) in that he maintained the strong liaison with Parliamentary Select Committees (Jacobs, 1998). Macdonald’s contribution is arguably the most significant as he exerted strong influence over the new legislation for the AG and his office. This new piece of legislation not only established that the AG is an Officer of the Parliament, but also reformed laws relating to the AG and his
office and clarified the AG’s jurisdiction in the public sector (Anderton, 2000).

### 3.2.5 Public Audit Act 2001

Although the Act was passed when Macdonald was in office, the idea to statutorily recognise the AG as an Officer of the Parliament had been around since 1989. The idea partly followed an inquiry into Officers of Parliament done in that year, which recommended that the AG be made a Parliamentary Officer, and that the Audit Department should be disestablished to be incorporated within the Audit Office itself (Pallot, 1991). Even with the passage of the 1989 Act, the FEC expressed the need for an Audit Office Bill that would give effect to the recommendations of this inquiry. The potential content of the bill is explained by Pallot (1991):

“In addition to establishing the Audit Office as an Office of Parliament with its own staffing, removing its funding from the influence of the Executive, and recognising accountability to the House through the Speaker, the bill may represent an opportunity to clarify several other matters. These include: whether the functions, duties and powers of the Controller and Auditor General are to be conferred on the office or be personal to the appointed officer; the term of appointment, if any; the organisations over which the responsibilities are exercisable; whether an audit appointment extends to subsidiary organisations that are controlled by public sector organisations; and explicit recognition of the now comprehensive nature of the audit role.”

The FEC stressed the urgent need for the bill, but it was not until 2000 that the Public Audit Bill was finally presented to the Parliament.

The OAG website records the history of the passage of the Public Audit Act 2001 from the year 1998 onwards (OAG, 2009b). Despite the call for a bill in 1989, it was not given a high priority on the legislative agenda, and another inquiry by the FEC followed only nearly a decade later. The inquiry came up with recommendations to be included in proposed legislation for the AG and the Audit Office, and the Bill fully implemented these recommendations.
The Bill was introduced to the Parliament in March 2000, and was eventually passed in 2001.

The passage of the 2001 Act was a significant milestone for the AG and his office. It established the AG and the Deputy Auditor General as Officers of the Parliament and provided a clearer accountability framework for the Office of the Controller and Auditor General (OAG). It resolved decades-long constitutional and accountability issues relating to the OAG (Buchanan and Simpkins, 2001) and better reflected the audit of modern public sector practices (Anderton, 2000). Prior to the Act there was no backing for the independence of the OAG, and the relationship between the Audit Office, Parliament and government was ambiguous (Green and Singleton, 2009, p. 129). Without constitutional independence there was a risk of political manipulation (p.130). The absence of a legal recognition of the independence certainly did not help when there were clashes between influential groups and the AG, where the AG had to fight for its accountability to the public (through Parliament), rather than to the politicians or the government. The 2001 Act also establishes a strong ground for performance audit in the country, and ensured that performance audit can continue to be performed, as well as clarifies the entities within the jurisdiction of the AG. More specifically, the Act allows the AG to conduct performance audits on all public sector entities (except the Reserve Bank and any registered banks).

The fight to continue its jurisdiction in conducting performance audit was not an easy one for the OAG. Although the recommendations of the inquiry did support the continuation of such audits, the Treasury continued to disagree. This episode was recorded by Green and Singleton (2009):

“Heated discussion ensued with the Treasury officials, who argued that the government did not need to own a large auditing business, that performance auditing was not really auditing at all and that the Auditor General did not require a special form of independence, other than the professional independence asserted by any auditor. Macdonald describes the OAG’s relationship with Treasury at this time as one of ‘extreme mistrust on both sides. It was a very, very difficult relationship.’” (p.152)
When the Act was finally passed, the mandate for performance audit was kept and included under Section 16. Macdonald took responsibility for reviving the performance audit function and was quoted as saying that he feels the Public Audit Act has “left a legacy for those following on in terms of the tools to carry out the function in the best possible way” (Green and Singleton, 2009, p.145). The continued and strengthened presence of the mandate has allowed a well established practice under Brady, who succeeded Macdonald in 2002.

Under Brady, the OAG further developed and strengthened performance auditing. Although it was a long and winding road before the Public Audit Bill was passed, the struggle was proven worth it when Brady had to fight against the unlawful use of Parliamentary Service funds in 2005 (Green and Singleton, 2009, p.156). It would have been more difficult to fight against political pressure had it not for the clear accountability framework provided by the Public Audit Act. The office has also successfully maintained a steady increase in the number of audits carried out, and this development is generally welcomed by the executives and public entities. Among the important milestones during Brady’s tenure is a budgetary increment that involves performance audit in 2004. This has made an increasing number of performance audit possible, and hence greater acceptance and development of performance audit in the country. The budgetary increment followed development of a Five-year Strategic Plan that included a proposal to strengthen performance audit activities. The OAG aimed to double the number of audits carried out within the time period specified by the plan (2004-2009).

In addition to the effort to strengthen performance auditing, the OAG also took the first initiative in 2009 to report a comprehensive follow-up of performance audits carried out in 2007 (OAG, 2009a). The report contains a summary of all performance audits carried out in 2007, the recommendations made to entities being audited, and the number of recommendations being accepted (or partially accepted) by the entities. In particular, the OAG reported that:
“We made 131 recommendations in the performance audit reports we published during 2007, and have information on the response to 110 of these. Of the 110 recommendations, 108 have been accepted or partially accepted. Of the 110 recommendations we have information on, 76 (69%) have been implemented. A further 27 recommendations are expected to be implemented within the first half of 2009 – this would bring the number of recommendations implemented to nearly 94%”

The efforts made by the OAG under Brady’s leadership provided a strong performance audit platform for his successor, Provost, who took office in late 2009. As the brief history illustrates, performance audit is very much a product of the AG’s approach due to its nature and the broad mandate granted by the Public Audit Act. Hence, although there are undoubtedly many other factors that will shape performance audit practice in the future, the past suggests the influence of Provost herself will also be a significant factor.

3.3 Performance Audit Methodology

In the earlier days of performance auditing there were extensive discussions on performance audit methodology. This was largely due to the different scope in mandate across jurisdictions, as well as the different interpretation and application of the mandate in practice (Shand and Anand, 1996). However there is currently a general guide that outlines the performance audit process, and in New Zealand this has been provided by the OAG as in Figure 3.
**Figure 3**

**Performance Audit Methodology**

*New Zealand Office of Auditor General*

**Scoping**

The OAG identifies the broad audit topic through an office-wide audit planning process. Before the audit starts, the OAG contacts public entities being audited and other parties to seek input into the audit's scope and timing. Some performance audits will involve more than one public entity.

**Planning**

The OAG creates a set of audit criteria or expectations, against which performance of public entities being audited are assessed. The OAG consults the entities on the audit criteria used and may take expert advice.

**Fieldwork**

The OAG collects evidence to ascertain whether its audit criteria or expectations have been met. Methodologies used include interviewing staff and stakeholders, reviewing documents and files, observation and statistical analysis. Under the Public Audit Act 2001, the OAG can assess any information it considers necessary to carry out the work. The information collected is confidential and cannot be requested under the Official Information Act 1982.

**Summary of findings**

The OAG analyses the evidence collected and draw conclusions from the evidence. It then provides the public entities being audited with a summary of the audit findings – this may be an oral briefing, a written document, or both. The public entity has a chance to comment on the audit findings.

**Draft Report**

Once a performance audit report is drafted, its content is checked for factual accuracy, peer reviewed and edited. Public entities being audited are given two weeks to comment on the accuracy, balance and presentation of the draft report. To maintain the Auditor-General's independence, the OAG is not required to reach agreement on a report’s content.

**Public Release of the Report**

The report is presented to Parliament and becomes public. The OAG offers relevant Ministers, select committees and other interested parties briefings on the report.

3.4 Research Statement

Although it has been nearly half a century of the evolvement of performance auditing, there are still many unanswered questions surrounding this form of auditing. A brief look into history reveals that several antecedents intertwined to shape performance audit as it is today. In particular the emergence of performance audit was largely driven by the concerns in the public sector, similar developments in other countries, major public sector restructuring, individual lead of the AGs, the government in office and presence of a mandate that grants statutory authority to carry out the audits. These antecedents have subsequently moulded the role of performance audit in the country, which is primarily to provide assurance to Parliament on the management of operations and processes of public entities. In doing so the OAG has sought to promote efficiency and effectiveness, hence providing observable performance improvement in the public sector. However, have the changes brought by performance audit been beneficial to the public sector? Have the goals of performance audit been achieved? To date there has been limited effort in answering these questions, with the majority of the effort coming from the OAG, for example through peer reviews and follow-up reports.

There is also a question of the value added by performance audit in the public sector. Literature of performance audit in the past and from other countries have recorded that in several cases these audits have been unsuccessful. Morin (2001) for example, found that more than half of her audit sample was unsuccessful influencing the auditees. Following her findings of unsuccessful audits, Morin encouraged more scepticism over performance audit impact by stating that:

“There are in fact many a priori beliefs about VFM audit, especially concerning its effectiveness as an instrument to control and improve the management of public affairs. But, in light of the findings reported here, more scepticism is advisable. Time is up for certain public institutions which have been considered sacred cows, above attack and unimpeachable in their effectiveness. The Auditors General officers should not be above the questions which have been aimed at (and which continue to be aimed at) most of the other public institutions” (p.115)

8 In her study success is measured by the level of influence that the AG exerts into the public entities with the audits carried out.
Closer to home, less than successful and acceptable audits also occurred in Australia, particularly in the early days of performance audit. Performance audits, or ‘special investigations’ as it was termed back then, “often caused bitter conflict between governments and Auditors-General” (Green and Singleton, 2009, p.146). We have also seen that in New Zealand, during the major public sector restructuring sceptics and critics of performance audit questioned the value of such audit in a commercialised environment. Although it is unquestionable that the notion of ‘value’ is difficult to gauge, studies should also look at the contributions that performance audit actually make in practice.

Throughout the recent history of the New Zealand public sector discussed in this chapter, the AGs have envisaged different roles for performance audit. Nonetheless, later AGs particularly Macdonald and Brady shared a similar vision for performance audit, which is primarily to provide assurance to the Parliament and public. How has this been translated into practice? Additionally, there are also questions as discussed above, largely pertaining to the practical benefits and contribution of performance audit in the public sector. Driven by these questions and the lack of attention that this area is receiving from the literature, my study seeks to answer the question: “What is the impact of performance audit on seven entities audited in 2006 by the New Zealand Office of the Auditor General?”

Chapter Conclusion

The emergence and development of performance audit in New Zealand was greatly influenced by surrounding political, legal and economic climate. In addition, the influence also came from within the OAG, with individual AGs being able to exert their own interpretation of the mandate granted to carry out the audits. The 1960s saw the first audits of this nature performed on local governments (Colquhoun, 2005), despite the absence of a mandate for the AG to do so. Things started to pick up for performance audit in the 1970s with the enactment of the Public Finance Act 1977 and the international movement of NPM which reflected rising concerns over accountability in the public sector. During this period, the attention towards efficiency and effectiveness heightened, but the efforts by the AG to advance greater efficiency and effectiveness were hindered by the prevalent attitude towards performance audit,
which generally was sceptical of the new form of auditing. In addition, there were other setbacks for the OAG like limited staff and skills, and also the absence of performance indicators due to the input orientation that was in place. The 1980s was promising for performance audit, with major public sector restructuring by the new Labour government working in concert with the orientation promoted by such audits. In particular, focus was shifted from input and processes to output and outcomes. There was also greater emphasis on efficiency and effectiveness, and the accountability of public sector managers, information which performance audit could potentially provide. The next decade, 1990s, was a critical decade for the OAG. There were internal crises, particularly financial troubles and the ‘Chapman saga’ (Green and Singleton, 2009, p.144), and performance audit took several different directions with the three AGs that were in office during the 1990s. The new millennium brought new milestones to performance auditing in New Zealand, first with the Public Audit Act 2001 that clarified the entities within the scope of the mandate, and later with the budgetary increment in 2004 that allowed more performance audits to be undertaken. The AG also took several initiatives in strengthening the role of performance audit in the public sector, for example by publishing follow-up reports on all of the performance audits undertaken in 2007 (OAG, 2009a).

There has been half a century of performance audit development in New Zealand. Throughout this period, there have been many changes to performance audit, in terms of the mandate, the AGs interpretations of the mandate, acceptance and attitude towards the audits, as well as other factors which affect the development of performance audit. These factors inform the performance audit practice at present, and will continue to influence performance audit practice in the future.
Chapter Four – Theoretical Framework

Chapter four justifies the methodological approach adopted in this study and the theoretical framework that provides the basis for analysis. The chapter also discusses the philosophical paradigm underpinning the methodological approach and the theoretical framework used.

“As researchers, we have to devise for ourselves a research process that serves our purpose best, one that helps us more than any other to answer our research question…Rather than selecting established paradigms to follow, we are using established paradigms to delineate and illustrate our own.” (Crotty, 1998, p.216)

Chapter Introduction

Previous chapters have described the nature of performance audit and set out the research question that will provide the direction of the study. The research question and nature of the research subject largely determine the methodology that will be adopted. In many cases research starts with the research question, and a method deemed most suitable to answer the research question. In turn, research methods usually fall into a particular research methodology that provides a framework to enable systematic and analytical research procedures. This research methodology is informed by an underlying theoretical perspective, which is a subset of a larger epistemological world⁹ (Crotty, 1998). The theoretical framework of this study, which consists of the research methods, methodology, theoretical perspective, and epistemology, is illustrated in Figure 4.

⁹ Epistemology as defined by Crotty (1998, p.3) is “the theory of knowledge embedded in the theoretical perspective and thereby in methodology.”
The theoretical framework adopted for this study is developed from the research question “what is the impact of performance audit on the audited entities?” The aim of this question is to assess the actual impact experienced by audited entities, inducted from evidence of the audit process itself, as well as the experience of the staff (of the audited entities) that were involved with the audits. The methods used to obtain such information are therefore textual analysis of documents relevant to the audits and interviews with the staff. The study was approached without prior presumptions to gain fresh insights into the experiences of the auditees. A methodology that allows such an approach to data is Grounded Theory, where knowledge evolves from data, “rather than be developed a priori and then be tested” (Lye, Perera and Rahman, 2006, p.129). Underpinning the methodology is symbolic interactionism, which focuses on knowledge and meanings derived from human action and interaction, and
rejects the notion of observer’s objectivity. The larger epistemological world that informs this theoretical perspective\(^\text{10}\) is Constructionism. These elements will be further discussed throughout the chapter.

### 4.1 Data

Research begins with data. The quality of the materials analysed is a major contributing factor to the quality of the research itself (Corbin and Strauss, 2008, p.27). Hence data needs to be useful, suitable and sufficient; what Charmaz (2006, p.13) termed as “rich data”. She describes “rich data” as going “beneath the surface of social and subjective life”, “detailed, focused and full”, and revealing participants’ “views, feelings, intentions, and actions as well as the contexts and structures of their lives” (p.14). Charmaz’s explanation provides an idea of what is expected of qualitative data; however she did not further explain what is meant by “detailed, focused and full”. Charmaz’s and Corbin and Strauss’ descriptions of data are also heavily oriented for qualitative research in medical and psychological sociology, where research draws heavily on personal experience rather than professional experience of participants, as sought by this study. Hence, gathering data in their sense is capturing the richness in human feeling and thinking, as opposed to my study which involves individuals speaking on behalf of the entity that they are employed by. Charmaz’s and Corbin and Strauss’ accounts of data are, nonetheless, still appropriate as data serves a universal purpose in all research, which is the root of all analysis.

The data used in this research comes in the forms of performance audit reports, official documents and interviews. Although these might not necessarily fit what Charmaz has termed as “rich data”, these data are deemed useful, suitable and sufficient given the limitations and scope of this study. Charmaz (2006, p.25) claims that rich data, among other sources, may be derived from “intensive interviewing” where the purpose is for an “in-depth exploration of a particular topic or experience”. For this research interviews were added to the data source of performance audit reports and official documents, as those sources did not provide sufficient information with regard to the impact of performance audit on the audited entities. The timeline of

\(^{10}\) Theoretical perspective is defined as “the philosophical stance informing the methodology and thus providing a context for the process and grounding its logic and criteria” (Crotty, 1998, p.3).
this study however, only allowed for one interview session with each of the entities. In addition, in one case interviewees had limited experience with the audit because the manager in charge who was closely involved with the audit is no longer with the organisation. The triangulation of data consisting of official documents, relevant reports and interviews, allows for each data source to complement the usefulness, suitability and sufficiency of the other sources. The official documents, reports and interviews were obtained from a sample of public entities audited by the OAG that meet the research criteria, as detailed below.

4.1.1 Sample

There are seven public entities used as the sample in this study. Table 1 provides the list of the public entities and the performance audit carried out on the respective entities. The sample was selected based on several criteria:

i. As specified in Chapter 3, there were several important developments in regards to performance audit recently (2001 onwards), which are important in setting the current contextual setting. Hence in keeping the contextual relevance and consistency, the audit sample cannot be taken from very far back. Furthermore, a long duration from the time the audits were undertaken would create difficulties in retrieving data from the archives, and even more difficulties in finding persons who were part of the audit to be interviewed. However, if the sample was of very recent audits, this might not allow for any impact of the audit to materialise. Therefore, for the purpose of consistency, contextual relevance and ease of data-gathering, the year 2006 was chosen as the base year for the sample list. Figure 5 outlines the timeline of the relevant dates for the purpose of this study.
ii. In 2006 there were fourteen performance audits carried out by the OAG (Appendix 1). This number includes audits of central and local governments, audits involving multiple agencies, as well as follow-up audits. To make the sample manageable and in line with the scope of the study, the sample has been restricted to audits on central government agencies. I foresee that there are complexities involved in gathering data on audits involving multiple agencies and local governments. One particular difficulty is the contextual arrangements of these entities. Audits involving multiple government agencies are subject to differing legal obligations and, similarly, local governments are subject to different Acts and by-laws. Hence with these audits, there are complex legal dimensions that would need to be taken into consideration if an analysis were to be carried out of them. By limiting the sample to audits involving central government agencies, this complexity was minimised and enabled the sample to be more manageable within the scope of my study. Follow-up audits were also excluded from the sample. With follow-up audits the initial audits have usually been done several years prior, hence not meeting the criteria of the base year. The date of the initial audit impacted both archival data, as well as the availability of potential interviewees for the study. After excluding performance audits involving multiple government agencies, local agencies and follow-up audits, the sample comprised a total of seven central government agencies as specified in Table 1.
Table 1
Sample of Performance Audits

<table>
<thead>
<tr>
<th>Entity</th>
<th>Performance Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Treasury</td>
<td>Capability to recognise and respond to issues for Maori</td>
</tr>
<tr>
<td>Foundation for Research, Science and Technology</td>
<td>Administration of grant programmes</td>
</tr>
<tr>
<td>Ministry of Agriculture and Forestry</td>
<td>Managing bio-security risks associated with high-risk sea containers</td>
</tr>
<tr>
<td>Department of Conservation</td>
<td>Planning for and managing publicly owned land</td>
</tr>
<tr>
<td>Housing NZ Corporation</td>
<td>Effectiveness of programmes to buy and lease properties for state housing</td>
</tr>
<tr>
<td>Ministry of Education</td>
<td>Ministry of Education: Management of the school property portfolio</td>
</tr>
<tr>
<td>Ministry of Social Development</td>
<td>Performance of the contract centre for Work and Income</td>
</tr>
</tbody>
</table>

4.1.2 Data Sources

i. Performance Audit Reports

At the conclusion of each audit, performance audit reports are tabled in Parliament and published for public viewing\(^\text{11}\) (refer Figure 3 in Chapter 3). Performance audit reports are the key communication channel of the OAG for each audit, hence containing crucial information regarding the audit. Information documented in performance audit reports include the reasons for the audit, background of the audited entity and audit subject, audit summary, findings and recommendations, and to a limited extent, the response from the auditees on the findings and recommendations.

\(^{11}\) The PDF copy of these reports is available at the OAG’s website; http://www.oag.govt.nz/reports/by-type/performance-audits, or hardcopy can be made available upon request.
Performance audit reports not only provide the basic information about the audit for this study, but also provide the point of view of the OAG in relation to all of the audits. To the extent that any auditee’s response is reported, the performance audit reports also allow for a comparison between the response mentioned in the report and the actual response made by the auditees to the initial draft provided to them, as documented in the official documents.

ii. Official Documents

Official documents relating to the seven performance audits in the sample provide one of the main data sources of the study. The official documents were requested from the seven entities under the auspices of Official Information Act 1982. These documents mainly relate to the correspondence between the auditees and the OAG during the drafting stage of the final audit report (refer Figure 3 in Chapter 3), as well as relevant departmental reports following the public release of the audit report. Examples of the official documents obtained are; departmental submissions, progress reports, action plans, briefing notes, correspondence emails between the public entities and the OAG, correspondence letters, memos and slide presentations.

There are several imperatives that underpin the choice of the official documents as source of data. Firstly these documents contain important data on the initial reaction and responses to the performance audit findings. This information is highly useful in capturing the voice of the auditees and looking at the audit from the perspective of the auditees. Secondly, the documents also offer information on the actions undertaken (or not undertaken) in response to the audit recommendations between the time that the audit report was published and the present day. Lastly, the documents provide an overall picture and general feel to the audit that has taken place.
iii. Interviews

The performance audit reports and official documents do not contain all information sought after for this study, which necessitated interviews as an additional source of data. The interviews followed initial coding on the reports and official documents that gave rise to specific issues or questions regarding a particular performance audit. In addition, they were carried out with staff that were involved with the performance audits to gain rich insights of auditees’ experience. This sort of information cannot be found in the other data sources. It is however, not an easy task to get hold of an individual staff member who meets this criterion mainly due to staff turnover and structural reorganisation within the entities. Due to these reasons and given the limited time and scope of this study, interviews were carried out with only four of the entities in the sample list.

The main reason that the four entities were chosen for interview sessions is because of the clear accountability line of the internal department/program involved, making it possible to identify a suitable interviewee. In addition, these entities were also chosen on the basis of the issues and questions that arose from the review of the official documents. For the other three entities, whilst it may be possible to trace a suitable interviewee that has been involved with the audit, this was not done for two reasons. Firstly, four interviews were deemed to be sufficient given the time constraint of this research. Secondly, the four interviews provided a good range of aspects of performance audit practice and hence, were deemed to provide sufficient information for the research.

The four entities were approached through the person that responded to the earlier official information request, which in most cases was the person responsible for the audited department/program. Of the four entities approached for interviews, three managers in charge / liaison officers who were directly involved with the performance
audits are still with the organisations, albeit having some changes to their respective managerial positions. For one entity the managers heavily involved with the audit were no longer with the organisation. Two staff members from the entity who had limited involvement, but were part of the team that assisted the audit were interviewed. Questions were sent to the interviewees prior to the interview.

The interviews focused on several aspects. The first was interviewee’s experience with performance audit. In particular, the experience sought is on the area of auditee-auditor relationship during the audit, and additionally interviewees were also asked what they think of the relationship generally. I am interested in their experiences, as experience in itself can be an impact on the entity. The second issue was the auditee’s perspective on the contribution of the audit to performance improvement, and what the auditee thought the impact of the audit on the entity was. The third issue was on the progress of the area audited, and how much of the progress that could be attributed to the performance audit. In addition to these generic questions, interviewees were also asked questions stemming from the official documents provided by their entity. These questions follow their responses to the draft provided by the OAG before the report is tabled in the Parliament. Interviewees were also asked if they had any suggestions to make with regard to performance audit.

For the purpose of reporting the research findings, the interviews are labelled:

**Interview 1:**

Interview 1 was attended by two managers from the entity. One manager was in charge of the area covered by the audit and hence worked directly with the performance auditors. The second manager was not directly involved but was at the organisation at the time and made some contributions to the audit, although not directly.
**Interview 2:**

Interview 2 was also attended by two managers. However for this particular entity, major restructuring of their internal structure took place recently, hence there were changes with the managerial positions since the audit. The manager who worked directly with the performance auditors had also left the organisation, hence the two interviewees were only indirectly involved with the performance audit. The first manager joined the organisation later during the audit, but was in charge of overseeing that a part of the audit recommendations were executed and reported back to the auditors. The second manager was from the internal audit team, which at some point was approached by the manager in charge of the area covered by the audit. The interviewed manager also attended several meetings with the performance auditors.

**Interview 3:**

Interview 3 was conducted with the manager directly involved with the audit, although he referred to himself more as the ‘liaison officer’ between his entity and the OAG. This is because he was specifically requested to ensure that the audit went as smoothly as possible and that the auditors were provided with what was needed for the audit. He has an auditing background, and felt that he understood completely the reasons for an audit and the work of the auditors.

**Interview 4:**

Interview 4 was also conducted with a manager who was directly involved with the performance audit on his entity. He was the main liaison person between the entity and the OAG, including in responding to the initial draft of the performance audit report.

**iv. Other**

This study also considered other sources that might provide a different perspective on performance audits carried out by the OAG.
This included parliamentary select committee\textsuperscript{12} considerations, newspaper articles and other publications pertaining to performance audit. Nonetheless, in regard to the seven audits in the sample list, no other information could be found from the list of other sources. Although these audit reports were tabled in Parliament and presented to the relevant select committees, no further consideration of these audits was found in Select Committee Reports, Hansard or the Journal of the House of Representatives. Parliamentary consideration would have been very useful to reflect responses from the main stakeholder of the public sector.

4.2 \textbf{An Adaptation of Grounded Theory}

Grounded theory largely stems from the work of Glaser and Strauss (Charmaz, 2006, p.5) and falls into the alternative realms of research methodology. ‘Alternative’ because it tries to provide insights that conservative scientific methodology cannot. Researchers in social science claim that scientific methodology fails to acknowledge complex human phenomena and oversimplifies the complex phenomena with a deductive theory development approach. As opposed to deduction, grounded theory applies an inductive approach to develop a theory “grounded in empirical evidence” (Lye \textit{et al}, 2006). It is therefore, interpretive on the part of the researcher, aiming to discover the underlying reality of a complex social situation. In this vein, researchers do not attempt to distance themselves from the participants but on the contrary seek “the opportunity to connect with them at a human level” (Corbin and Strauss, 2008, p.13). The researchers also acknowledge that they bring prior knowledge, experience and skills into the study, which inevitably affects the outcomes of the study.

The application of methodology from grounded theory enables the construction of knowledge from data, without being bounded to a pre-determined theory. In particular, the methodology allows for knowledge to emerge from information and insights contained in primary data sources, without imposing any \textit{a priori} knowledge.

\textsuperscript{12} The Parliament’s website described select committees as working “on behalf of the House and report their conclusions to the House. There are up to 13 subject-area select committees, plus any number of ad hoc committees set up from time to time for particular purposes. Select committees often ask the public for input when they are considering a bill or inquiry” (The Parliament, 2010).
In the public sector literature, researchers like Abdul-Rahman and Goddard (1998), Morin (2001), Goddard (2004) and Lye, Perera and Rahman (2005) have sought to answer their research questions by applying this methodology. Abdul-Rahman and Goddard (1998) for example, triangulated grounded theory and ethnography to conduct a case study into accounting in two Islamic organisations through interviews with personnel in both organisations. Authors adopting grounded theory often rely primarily on empirical data alone in developing a theory or emergent knowledge in their areas of study. The authors also purposely avoid imposing any a priori knowledge to gain richer, deeper and more in-depth exploration of their research subjects. Perhaps due to these reasons Charmaz (2006, p.20) is encouraged to make the claim: “These authors bring an imaginative eye and an incisive voice to their studies and inspire good work. Their work transcends their immediate circles.”

Studies adopting grounded theory are also not interested in making generalised claims, instead are primarily focused on a specialised context which is unique only to the research subject. Although this might be seen as a research limitation, even by authors espousing grounded theory themselves (Abdul-Rahman and Goddard, 1998; Lye, Perera and Rahman, 2005), it should not necessarily be so. It is the inherent nature of Grounded Theory, or any case study for that matter, that no generalisation can be made from the findings. The focus on the specific context through case studies and grounded theory enables in depth exploration of the research subject, as well as evaluation across different contextual arrangements. For example, this study into the impact of performance audit on seven audited entities enables a look into the very experience of these entities, and enables a later assessment of the impact experienced by other entities under different contextual arrangements; for example other jurisdictions, other Auditors General or other economic and political concerns.

Figure 6 provides a simplistic view of the grounded theory adaptation applied in this study, whilst Figure 7 (at the end of this section) summarises the framework used. The research is not linear but iterative, where a researcher revises and returns to the earlier steps several times throughout the research.
4.2.1 Sensitizing concepts

‘Sensitizing concepts’ is a process of identifying important concepts and general disciplinary perspectives from literature (Charmaz, 2006). In this research for example, it was identified that authors generally apply the constructivist perspective in studying performance audit (Hamburger, 1989; Jacobs, 1998; Guthrie and Parker, 1999; Morin, 2001). Furthermore, performance improvement and performance accountability were identified as the inherent themes embedded within the origins of performance audit, as well as central to performance audit discussions in prior literature. The process of synthesizing concepts therefore, is important in placing this research in the wider literature context and also in determining the body of knowledge that this research belongs to.

4.2.2 Data Collection

In processing the data, I have several times returned to data collection after analysing and questioning the acquired data. The data collection started by acquiring performance audit reports of all performance audits carried out in 2006. As previously mentioned, there were fourteen performance audits carried out in that year. A closer examination of the audits narrowed down the sample into only performance audits on a single central government agency,
hence further data collection was done on the seven entities that met the sample criteria. Another step of data collection was done by sending requests for official information to the seven entities in the sample list. Once received, the documents were reviewed, and initial coding was done. However, since interviewing the auditees was deemed to provide a more thorough analysis, more data collection was done after the initial coding using interviews. In grounded theory, this iterative process is continued until the point of “data saturation” (Corbin and Strauss, 2008, p.148). Since my research only applies several tools of grounded theory and did not seek to develop a theory, the process is continued until the data was deemed sufficient and credible.

4.2.3 Coding

In the method of grounded theory proposed by Charmaz (2006) and Corbin and Strauss (2008), there are several different stages of coding, in particular open coding and axial coding. However, as Charmaz (2006) believed, grounded theory methods should be viewed as “a set of principles and practices, not as prescriptions or packages” (Charmaz, 2006, p.9), this research will not follow the process of coding in such detail. Firstly, because this research did not aim for theory building hence not demanding such detail, but also secondly, because the nature of the data gathered in this research does not necessitate detailed coding be done. There is not as much depth in reports and official documents for example, compared to personal and emotional experiences usually found in data for medical and psychological sociology research. Moreover, the size of sample and hence the amount of data used in this research is relatively less than for research done aimed at theory building.

In initial coding, textual data is read through to generate codes. Issues that may arise from the audits were also picked up during this stage. The codes generated from initial coding provide a general idea of the data content and the

13 Corbin and Strauss (2008) define “data saturation” loosely as “when no new categories or relevant themes are emerging” from the data. However, the saturation does not only concerns categories and themes, but the properties and dimensions of these. Hence saturation is a point where categories and themes are “sufficiently well developed” with properties and dimensions explored under different conditions. Since determinate categories and themes are not possible, properties and dimensions not covered by the research have to be acknowledged as limitations of the study (p.149).
areas that I might want to explore more. During this process, there were several questions that arose, in which I felt I needed to know more because the information could not be found in the official documents or the performance audit reports. Examples of these questions are: ‘What did the auditees think of the outstanding differences in opinion between the entity and the OAG?’, ‘What was the experience like for the auditees; was there any reluctance?’ and ‘How have the operations covered by the audit scope changed, and how much of this can be attributed to the audits?’ Hence, although initial coding on the textual documents was useful, there were several questions that remained, which official documents and performance audit reports did not answer.

The codes generated from initial coding were tentatively placed into specific categories of concepts. There were many recurring codes as I progressed further into the coding process. This is not surprising because performance audit is centrally focussed on issues surrounding systems, processes and procedures. These codes are put into broad categories, which essentially capture performance audit in practice, and this is valuable knowledge as such information has never been reported in the literature.

The next level of coding is focused coding, whereby new codes generated were allocated into the categories that were developed in initial coding. New codes largely arise from new data, particularly from interviews. Additionally, I did random selection of data previously coded to check on the codes generated to avoid multiplication of codes with similar meaning but different terms, for example ‘monitoring’ and ‘oversight’.

4.2.4 Memos

Memos provided the basic structure of a grounded theory research and are conceived as “adaptable narrative tools for developing ideas and elaborating the social worlds of research sites” (Lempert, 2007, p.247). Essentially, memos provide a place for ‘intellectual conversations’ between researchers

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14 As explained in Chapter 4, interviews are carried out due to the limited information provided by official documents and performance audit reports needed to answer this research question.
and their data, where researchers “find their own voices, and where they give
themselves permission to formulate ideas, to play with them, to reconfigure
them, to expand them, to explore them, and ultimately to distil them for
publication and participation in conversation with others” (ibid). According to
Holton (2007, p.265):

“Memo construction differs from writing detailed description. Although
typically based on description, memos raise that description to the theoretical
level through the conceptual rendering of the material. Early in the process,
memos arise from constant comparison of indicators to indicators, then
indicators to concepts. These memos are often very brief, just a few lines. Later
memos will be more extensive as they integrate the ideation of the earlier
memos and will, in turn, generate new memos further raising the level of
conceptualization.”

Memos therefore, are at the heart of the thinking process and analysis of the
research.

Although memo-writing started at an early stage of the study, it was a
continuous activity that recorded my thinking process and thought
development throughout the research. Memo content included ideas from
readings, interviews and even meetings with my supervisors. At the start of the
research, memos included ideas from the initial coding process, ideas which
would be further developed throughout the memo writing process. These
memos make ‘initial memos’ and the ideas in initial memos sometimes change
depending on new information found, for example earlier in a memo I wrote:

“Reading through the performance audit reports it seems that most of them
are not reader-friendly. Firstly, there is no particular format in terms of its
content and there is an overcrowding of descriptive information. Secondly, in
some reports it have been succinctly stated the reason of conducting the
audit, but in some other reports there are no explicit reason for the audit. In
addition, it could also be useful that the AG tells whether the audit was by
the request of the Parliament, by recent issues or by the AG’s own initiative.
As with other accountability reports, I believe there is much to be studied in
terms of the report content and format of performance audit reports.”

However, after gaining a better grasp of the performance audit reports, I wrote
in a later memo:
“The reports in general are actually well organised, but still make a long read due to the descriptive content and repetition of such content. It would have been better if the descriptive content was reduced and with more straightforward points highlighted. Interestingly, this issue has also been raised by the Peer Review Team in their report (para 6.2.48) (OAG, 2008). The AG also does give reasoning for each audit and this is usually set to be consistent with the audit expectations. However, after studying the official documents and interviewing the entities, I feel that the situations faced by some of entities are not really reflected in the reports. On this note, there is little that can be derived from performance audit reports in terms of the impact because the reports do not really capture responses of the auditees, although this is valid since the OAG is not expected to reach an agreement with the auditees to maintain its independence.”

In writing memos, I focused my thoughts around the research focus, which is the impact of performance audit on audited entities. There were points in the memos that were regarded as tentatively useful at the start of the research, but proved not to be part of the main focus in later stages of the research. The type of performance audit for example\textsuperscript{15}, was deemed irrelevant to the whole focus of this research, and hence was included in earlier memos but not in the final draft.

Memo-writing goes hand in hand with coding, as it also functions to make sense out of the codes generated. Advanced memo-writing is done after codes are derived from all data sources, including from the interviews. Hence during advanced memo-writing, ideas were generally developed from findings. These findings at the basic level come in the form of codes, but without ideas generated based on the background information, observation and a lot of thinking, the codes are just words. Therefore memos were used as a platform to develop these codes into more meaningful information through comparison and synthesis.

\textsuperscript{15} Shand and Anand (1996) categorised performance audit into substantive and systemic audits. At the start of the research, this was included into consideration, tentatively if the type adopted by New Zealand may leave influence the impact that performance audit has. However, upon reflection, the categorisation was deemed irrelevant. It may be more relevant in studies that do cross-country comparisons of performance audit practice, for example.
Towards the end of the analysis, memos were integrated with categories to form themes and discussions, as presented in Chapter 6. This process brings together memos from the initial-memo stage, through to the advanced-memo stage with refined categories. During this process, the literature and data were also revisited for further comparison and synthesis. The process picks up issues for additional insights and integration and develops knowledge derived from the analysis, especially on matters pertaining to performance improvement and performance accountability brought about by the audits. For this research, such information is known as ‘concepts’, falling under the larger themes of; ‘performance improvement’ or ‘performance accountability’.

4.2.5 Concepts & Themes

Concepts are the product of coding and memo writing, and ‘themes’ are used to denote higher level concepts. Themes (or sometimes called categories), are a cluster of lower-level concepts with similar properties that represent incidents, and these characteristics enable a researcher to manage data collection (Corbin and Strauss, 2008, p.159). In this research for example, ‘performance accountability’ is a theme that is used to represent concepts like ‘meeting public expectations’ and ‘implications/influence (of decisions) on the public’. Corbin and Strauss further explain that:

“All concepts, regardless of level, arise out of data. It is just that some are more abstract than others. The process of conceptualizing data looks like this. The researcher scrutinizes the data in an attempt to understand the essence of what is being expressed in the raw data. Then, the researcher delineates a conceptual name to describe that understanding – a researcher denoted concept. Other times, participants provide the conceptualisation. A term that they use to speak about something is so vivid and descriptive that the researcher borrows it – an in-vivo code.” (p.160)

However in-vivo codes are not necessarily derived from what participants ‘speak about’ because data does not just come from interviews, although in grounded theory research such is common. Since my research triangulates data from textual documents and interviews, some in-vivo codes may arise
Essentially, concepts are made of codes which have been synthesised, which went through the thought process of memo-writing. Like the coding process, there were also two stages of categorising to avoid multiplication of similar concepts. The first stage of conceptualisation came after initial coding and memo-writing. This stage is tentative as there was not only a long list of codes to be synthesised, but also the concepts themselves needed to be checked and refined to avoid repetition. The concepts were refined after focused coding was done and as advanced memo-writing took place.

The result of the conceptualisation process is concepts that elucidate a comprehensive performance audit focus demonstrated in the seven audits studied. In particular, the concepts generated covered aspects from input, output and outcomes of the audited entities. These include resource management, planning, all the way through to the impact of the decisions that these entities make on the public and other stakeholders. These concepts are in turn, developed from codes like ‘prioritisation’, ‘strategic direction’, ‘annual plan’, and ‘consideration of stakeholders’.

As discussed in section 4.2.5, ‘theme’ is the term used to denote higher level concepts. Hence, for this study, whilst ‘meeting statutory obligations’ and ‘implications / influence’ on the public represent lower level concepts, these have been grouped together to represent a theme of ‘public accountability’. The themes identified by this study are discussed in further detail in Chapter 6.
Research question

Data Collection: Official Information Requests, Performance Audit Reports

Initial coding
Initial memo

Codes are tentatively put into categories

Data collection: Interviews
Focused coding

Advanced memo writing

Integrating memos

Refining & diagramming concepts

Conceptualisation: Themes

First draft

Re-examination of earlier data

Linking findings with prior literature

Literature Review / Sensitising Concepts

Figure 7
Framework of the Research Process

Adapted from Charmaz (2006, p.11)
4.3 Theoretical Perspective: Interpretivism - Symbolic Interactionism

All methodologies are underpinned by beliefs of knowledge, and for this reason I choose to elucidate the assumptions underlying the methodology adopted in this study. Crotty (1998, p. 66) has clearly explained the relation between theoretical perspective and methodology;

“Theoretical perspective’ is being taken here to mean the philosophical stance lying behind a methodology. The theoretical perspective provides a context for the process involved and a basis for its logic and its criteria. Another way to put it is to say that, whenever one examines a particular methodology, one discovers a complexus of assumptions buried within it. It is these assumptions that constitute one’s theoretical perspective and they largely have to do with the world that the methodology envisages. Different ways of viewing the world shape different ways of researching the world.”

Theoretical perspective to a certain extent reflects where a researcher is coming from. Within the area of my research interest for example, I do not believe quantifying the knowledge will add much meaning to the knowledge base. Hence rather than answering the research question through hypothesis testing, I am more interested in investigating what the actors would make of it. Having said that, I also do not think it is necessary for all cases to let software and computer programmes do the thinking in a research, as this also will not provide much meaning to the researcher. Software and computer programmes are useful tools to aid research, but what adds value to the research is the thought process of the researcher.

This research is done based on the assumptions of Symbolic Interactionism, which has roots in Interpretivism and Pragmatism (Crotty, 1998; Corbin and Strauss, 2008). Interpretivism as a theoretical perspective has branches out to several schools of thoughts distinct in their own right; into symbolic interactionism, phenomenology and hermeneutics (Crotty, 1998, p.5). Theoretical perspective embodies the broad assumption that interpretations are “culturally derived and historically situated” (p.67). This research applies the views of symbolic interactionism. As the name suggests, symbolic interactionism assumes that meanings and knowledge are created through human interaction. Meanings in a symbolic interactionist world hence are created through action. Here the Pragmatist philosophy is reflected in that human
action (in practice) creates problems which are taken to be studied, and the knowledge that results feeds into action, and the process reiterates to provide cumulative knowledge as we know now. For this reason pragmatists believe that “for the time being this is what we know – but eventually it may be judged partly or even wholly wrong” (Corbin and Strauss, 2008, p.4). Hence, the current knowledge is seen as a contribution to the evolution of knowledge in society. This is my sentiment exactly as the researcher in this study: that there exists an opportunity for new knowledge by studying human action and interaction in the field of performance audit in New Zealand. What is it that the OAG does that leaves an impact on public entities and subsequently the public sector? How does the action of the OAG with performance audit impact the audited entities, if it does so at all? How does the interaction between the OAG and the auditees of performance audit create an impact both on the entities and the public sector? These questions can only be answered by looking at practice itself, which mirrors the crucial interplay between research and practice central to the Pragmatist philosophy.

4.4 Epistemology: Constructionism

Many researchers adopt Constructionism, without succinctly acknowledging it or perhaps without finding the necessity to do so (Sinclair, 1995; Abdul-Rahman and Goddard, 1998; Jacobs, 1998; Guthrie and Parker, 1999; Lye, Perera and Rahman, 2005). As with the theoretical perspective, I find it useful to elucidate the worldview that underlies this study to aid greater understanding of the methodology, and consequently the findings of this study. The most basic tenet of this epistemological stance is that knowledge, meanings and truth are all constructed by humans, as opposed to being discovered\textsuperscript{16}. Crotty (1998, p.42) describes this epistemological stance in short:

“It is the view that all knowledge, and therefore all meaningful reality as such, is contingent upon human practices, being constructed in and out of interaction between human beings and their world, and developed and transmitted within an essentially social context.”

\textsuperscript{16} The discovery of meaning is taught by the conservative school of thought; positivism, which believes that meanings are waiting to be discovered by human, and that these meanings/objects exist with or without the consciousness or human/subjects.
Seeing the world through the eyes of a Constructionist, one can find many instances of constructions of reality in societies. Languages, currencies, politics, nationalism, cultures – they are all socially constructed; what is true in one society does not make it true in the other, or what is true in the past doesn’t make it true now. However, social constructions do not apply only in social science, but also in natural science. Crotty (1998, p.54) warns of the difference between ‘the construction of social reality’ and ‘social construction of reality’, with the latter being the correct stance of the epistemology. He uses an example of a tree, being a natural object yet having different meanings according to what societies make of it, and that natural scientists may enter a study of trees with different conceptions of a tree, according to their respective backgrounds.

Performance audit as a social construction also has these traits whereby its characteristics are largely determined by historical, cultural, constitutional and societal rudiments surrounding it. Although in a very broad sense performance audit is taken to represent audits of economy, efficiency and effectiveness, the reality of it in practice varies greatly in terms of mandate, scope, approach, methodology and reporting across different jurisdictions. The impetus and antecedents of the development also vary, leading to different forms of performance audit, different objectives for performance audit and consequently different achievements between different countries (Shand and Anand, 1996). Therefore, performance audit is taken to be a product of social construction in this study.

There are of course several important consequences of having this worldview as the basic assumption of one’s research. Due to the continual nature of construction by societies, Crotty (1998, p. 16) postulates that under Constructionism, no knowledge and meaning is “objective, absolute, or truly generalisable”. This statement definitely applies to this research. In studying the impact of performance audit on seven public entities, I bring my skills and prior knowledge which do have an influence on the direction and the outcome of the research. Thus other researchers studying the same area or even the same entities might provide a different outlook. Yet each study on performance auditing contributes to the accumulation of knowledge in the area, enriching the performance audit scene in practice. Also, it is virtually impossible to
generalise the outcomes of the study given the Constructionist nature of the activity, hence I do not see this as a limitation, instead it is an inherent nature of the study.

Chapter Conclusion

Underlying this research are the beliefs and assumptions of social interactionists, which belong to a wider body of knowledge called Constructionism. The understanding provided by the philosophy of Constructionism is that performance audit is the product of various antecedents like the political and economic environment, the AG in office and also international movements like the NPM. With the belief that performance audit is a social construct, this research analysed seven performance audits undertaken in 2006 against the backdrop of the New Zealand public sector from the late 1960s to the early twenty first century. In addition, the analysis was also done without imposing a priori knowledge to learn the dynamics of performance audit that were constructed by its surrounding. The methodology of grounded theory allowed for such assessment, however, since I am not seeking to develop a theory, only several aspects of grounded theory were applied to this research. In learning about performance audit in New Zealand, analysis was done on three data sources, namely: performance audit reports, official documents and interviews with auditees. The analysis included coding, memo-writing and conceptualising, which consequently provided concepts and themes that informed an understanding of performance audit practice in New Zealand.
Chapter 5 – Findings

Chapter four has laid out the theoretical foundation of the research and this chapter presents the actual adoption of the theoretical framework in this study, as well as the findings resulting from the adoption. In particular, this chapter provides background information and details of the sample derived from the data and literature.

“It is the freedom to think, the ability of the researcher to change his or her mind, to check out ideas, and to follow the data trail wherever it leads that makes the findings derived through qualitative research so compelling and relevant and the process of getting there such an exciting voyage of discovery.” (Corbin and Strauss, p. 228)

Chapter Introduction

In 2006, there were fourteen performance audits carried out by the OAG (Appendix 1). These include performance audits on central and local agencies, cross-sector audits, and follow-up audits. As discussed in chapter 4, this study is only interested in audits of single central government agencies, which brings the number of the entities in the sample to seven. The performance audits in the sample are:

- The Treasury: Capability to recognise and respond to issues for Maori
- Foundation for Research Science and Technology (FRST): Administration of grant programmes
- Ministry of Agriculture and Forestry (MAF): Managing bio-security risks associated with high-risk sea containers
- Department of Conservation (DOC): Planning for and managing publicly owned land
- Housing New Zealand Corporation (HNZC): Effectiveness of programmes to buy and lease properties for state housing
- Ministry of Education (MOE): Management of the school property portfolio
- Ministry of Social Development (MSD): Performance of the contract centre for Work and Income

Although small in number, this sample provides a good range of activities and issues that concern a particular public entity. For example, this sample includes entities in
the agricultural, housing and education sector, with each having different stakeholders, issues, concerns and legislative arrangements.

5.1 Performance Audit Reports and Official Documents

As detailed in section 4.1.2, in the data collection stage performance audit reports of these seven audits were acquired and official information requests were sent to the respective entities. Next, initial analysis was done on these documents, which are presented by entity as follows:

5.1.1 The Treasury

The Treasury is the lead economic advisor to the government, providing a wide range of outputs and services. These include managing the financial affairs of the Crown, giving policy advice, and forecasting and reporting fiscal and economic activities (Directory of Official Information, 2005). The Treasury also aims to improve the living standard of all New Zealanders (Treasury, 2009). As a lead advisor to the government, the Treasury is a very important agency in New Zealand’s fiscal and economic performance. This subsequently has an impact on the public as they are most likely to be affected by the decisions made and advice given by the Treasury.

In 2006, the AG carried out a performance audit to assess the capability of the Treasury to recognise and respond to issues for Maori (OAG, 2006g). In New Zealand, the state has a special accountability towards the Maori arising from the Treaty of Waitangi, as explained by the Court of Appeal in 1987 (Green and Singleton, 2009, p.147). The audit essentially looked at the effectiveness of the systems and procedures in terms of dealing with issues for Maori. It followed the Third Report for 1998 which included a Part entitled ‘Delivering Effective Outputs for Maori’ (OAG, 2006g, p.5). The issue is important, consistent with the social and economic goals that the government set for New Zealand.

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17 “The Treaty of Waitangi is New Zealand’s founding document…The Treaty is an agreement, in Maori and English, that was made between the British Crown and about 540 Maori rangatira (chiefs)” (The Treaty in brief, 2010).
Zealanders generally, which encompasses Maori. The audit found that overall the Treasury was recognising and responding effectively to issues for Maori, although there were two areas that were suggested for improvement. The recommendations of the audit are as detailed in Table 2. The Treasury was found to have plans in place, as well as sufficient systems, structures and processes to recognise and respond not only to Maori people in general, but also to its Maori staff (OAG, 2006g). The AG also advised that “other departments may find the methods that the Treasury has used to improve the capability of its staff a useful model for their own efforts to do the same” (p.3). The advice reflects the use of the performance audit report by the AG as a tool to promote knowledge sharing of management best practice within the New Zealand public sector.

Table 2
Capability to Recognise and Respond to Issues for Maori: Audit Recommendations

<table>
<thead>
<tr>
<th>No</th>
<th>Recommendations to the Treasury (OAG, 2006g)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Preparing staff to recognise and respond to issues for Maori</td>
</tr>
<tr>
<td>1</td>
<td>Ensure that new employees, including managers, are provided with information about the activities and resources available within the Treasury to recognise and respond to issues for Maori.</td>
</tr>
<tr>
<td>2</td>
<td>When its standardised frameworks for analysing Maori policy issues are sufficiently reliable, the Treasury draw up a set of competencies to ensure that there is a common body of knowledge and skills among staff to respond to Treaty of Waitangi and Maori issues.</td>
</tr>
</tbody>
</table>

The official documents provided by the Treasury contained information on the initial correspondence between the OAG and the Treasury, as well as a work plan and process for Maori Responsiveness by the Treasury’s Maori Responsiveness Group (MRG). No response of the Treasury to the findings or recommendations however, was provided. Hence based on the official information available, it cannot be said if these recommendations have been implemented or followed up by the Treasury. In addition, although the paper
by the MRG discussed issues and plans for Maori Responsiveness, it did not specifically address the recommendations made by the audit. There was reported progress against the 2004/05 work plan on the design and delivery of training courses that is relevant to Maori Responsiveness, but there was no mention of how this relates to creating awareness to new employees in terms of recognising and responding to issues for Maori. There was also no mention of implementing the second recommendation from the audit. Despite the lack of information in the official documents regarding the response to the audit recommendations, the documents illustrated a good auditor-auditee relationship between the Treasury and the OAG. Generally, the Treasury staff were very responsive and co-operative to the requests of the performance auditors in gathering data and understanding the capabilities of the Treasury in recognising and responding to issues for Maori.

5.1.2 Foundation for Research, Science and Technology

The core mission of the Foundation is to “invest for results from research, science and technology to deliver greater prosperity, security and opportunities to all New Zealanders” (FRST, 2009). In line with this mission, its function is to invest on behalf of the government in research, science and technology (RS&T) to enhance the wealth and well-being of New Zealanders (Directory of Official Information, 2005). It also has three specific roles in building the future New Zealand economy, which are;

“i) purchasing public good RS&T with sound investment decision to maximise public returns
ii) being an intelligent purchaser by adding value to the public funds, and
iii) providing policy advice to the government on RS&T issues” (ibid)

As part of its role, the Foundation administers grant programmes for RS&T. It is the largest public sector provider of grants for RS&T, administering grant programmes worth more than $400 million a year (OAG, 2006b). In 2006 the AG conducted a performance audit on these programmes as part of a 3-year series of examining grant programmes administered by various public entities. It was deemed important that grant programmes are efficiently administered,
and that public funding was allocated as intended by the government. The criteria set for this audit were hence Ministerial criteria in administering grant programmes. Overall, the OAG concluded that the FRST is effectively administering the grant programmes and scheme examined in the audit\(^\text{18}\). The audit identified several areas for improvement, in which the OAG made recommendations for the FRST to act upon. There were seven recommendations in total, focussing on areas of grant assessments, database systems, and roles and responsibilities between the FRST and the Ministry of Research, Science and Technology. These recommendations are detailed in Table 3.

According to one of the official documents, the FRST was “pretty happy” with the draft report provided to them for comment (FRST, 2006). There were no major differences in views regarding the audit recommendations, although there were several areas in the draft report that the FRST commented on to better reflect the operations of the FRST in administering grant programmes. The FRST response to each of the seven recommendations made is also detailed in Table 3. The FRST also noted that some of the recommendations made by the OAG had already been identified by their Business Redesign project team (FRST, 2006). Hence, although the audit recommended consistent file identification for its database system for example, this was already in the process of being implemented under a large scale redesign project called ‘Project Phoenix’\(^\text{19}\). The consequence of this situation is that, when the database system was indeed upgraded, the OAG’s recommendation could appear as the dominant driver of the improvement, whereas this change was already planned. Therefore the improvement made in this area was not necessarily triggered by the performance audit. In this sense, it would not be accurate to claim that the performance audit led to the improvement when the issue had already been identified by the entity itself and was in the process of being addressed through its own initiative.

\(^{18}\) A case study approach was taken to conduct the audit where the OAG selected random grant applications to be audited.

\(^{19}\) At the time when the response in Table 3 was made, the implementation into Project Phoenix was only in the planning phase.
Table 3

Administration of Grant Programmes: Audit Recommendations and Auditee Response

<table>
<thead>
<tr>
<th>No</th>
<th>Recommendations to the FRST</th>
<th>FRST Response (directly quoted from FRST (2006))</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ensure that its assessment process for awarding GPSRD meet the Ministerial criterion that a project is likely to start sooner and complete earlier with funding support.</td>
<td>We are happy to accept this recommendation but OAG may wish to add some further context bearing in mind the following comments. The Foundation does assess but not document this particular criterion in the TechNZ database. For example it is included in both the “Technology for Business Growth Assessment Criteria” and the “Investment and Returns Assessment Criteria” information on the website which cover both TBG (Technology for Business Growth) &amp; GPSRD which states: The Foundation aims to fund projects that are additional to what would have been realised without its involvement, or at least that will start or complete significantly sooner or be done better with than without. Proposed R&amp;D that would be done as well without Government support will not score highly. In order to secure grant funding the Foundation places extra demands on a company through its approval process such as developing a detailed project plan and specifying commercial returns etc which give any grant funded project a better chance of success compared to an unfunded project. Some criteria lend themselves to explicit scoring and because of this codified capture in our TechNZ database. The criterion of “whether a project is likely to start sooner and complete</td>
</tr>
</tbody>
</table>
earlier with the scheme’s support” is effectively a yes/no question that is answered to the Foundation’s satisfaction through the approval process (noting that all potential grant recipients would answer “yes” anyway). Codifying this yes/no question can be done easily but probably won’t add a great deal of value to the GPSRD investment process so for these pragmatic reasons we don’t codify it in TechNZ database.

| 2 | Review the effectiveness of existing arrangements with evaluating agents of the GPSRD scheme for evaluating completed project. | Agreed. |

**The Technology for Business Growth (TBG) scheme**

<p>| 3 | Ensure that its assessment processes for awarding TBG grants meet the Ministerial criterion that a project is not likely to proceed without the scheme’s funding support. | Comments (for Recommendation 1) apply here for the same reasons. In addition under TBG the Foundation imposes additional very important sub criteria of “Pathway to market” and “Ability to deliver” as noted under clause 3.14 (of the performance audit report). These are in effect the extension and codification of the higher “not likely to proceed” criteria laid out in the Ministerial Notice which again would just be a yes/no question. In other words we would argue that particularly for TBG we already go quite some distance further than required by just the Ministerial Notice. |</p>
<table>
<thead>
<tr>
<th>4</th>
<th>Amend its web-based system for administering TBG grants to automatically detect breaches of funding limits.</th>
<th>Agreed. Will be incorporated into the Business Process redesign project currently underway.</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Clearly record in paper files or electronic systems the reasons for approved variations to payment drawdown schedules by grants recipients.</td>
<td>Agreed. Will be incorporated into the Business Process redesign project currently underway.</td>
</tr>
</tbody>
</table>

**The Research for Industry (RFI) programme**

| 6 | Use a consistent file identification and management system for its RFI grant programme, so that applications can be easily linked to approved grants. | Agreed. Will be incorporated into the Business Process redesign project currently underway. |
| 7  | Liaise with the Ministry of Research, Science and Technology to define clearly their respective roles and responsibilities for evaluating grants programmes administered by the Foundation. | Agreed. |
5.1.3 Ministry of Agriculture and Forestry

The Ministry of Agriculture and Forestry (MAF) has a responsibility for biological resources of New Zealand. The Ministry exists with the aim to achieve “sustainable economic growth and prosperity for New Zealanders, healthy New Zealanders and a vibrant rural community, and maintained and enhanced economic, social and cultural benefits for New Zealanders from the natural environment” (MAF, 2009). In carrying out its role, the Ministry is supported by a divisional arm, Biosecurity New Zealand (Biosecurity NZ), which is responsible for the country’s biosecurity system. Biosecurity NZ’s role is to facilitate international trade, protect the health of New Zealanders and ensure the welfare of New Zealand’s environment, flora and fauna, marine life and Maori resources (Biosecurity NZ, 2009).

The performance audit carried out in 2006 specifically looked at the management of biosecurity risks associated with high-risk sea containers. This area is within the remit of Biosecurity NZ. The AG decided to audit the management of biosecurity risks by the Ministry due to the large number of sea containers coming into the country each year, and the risks that some containers may bring to the well being, health, environment and economy of New Zealanders (OAG, 2006d). The audit focussed on how the Ministry “identifies, inspects, and manages the decontamination of sea containers that pose the highest biosecurity risks” (p.2). In particular, the audit examined three main areas; the implementation of Import Health Standard for Sea Containers from All Countries (the Standard) by the Ministry, the identification of high-risk sea containers through risk profiling, and the processes involved in relation to biosecurity clearance for high risk sea containers. The audit found that there was a delay in implementing the Standard and hence, although the Ministry is generally effective in mitigating risks, the effectiveness may be hindered to some extent by this delay (ibid). The recommendations made by the audit to the MAF are detailed in Table 4.

The official documents relating to the audit highlight the usefulness of the audit to the MAF in terms of managing sea containers. Generally all
recommendations were accepted and addressed through an ad-hoc plan which arose from the audit recommendations called ‘Sea Container Management Plan’ (MAF, 2007). The specific response made by the MAF to the OAG is also provided in Table 4. It is interesting to note that although the MAF generally “agrees with all the recommendations” (MAF, 2006, p.2), in its response to some of the recommendations it stated that it “needs greater ability” (ibid) or the recommendation “has significant resource implication for MAF” (p.3). Hence, where such responses were given, it is not clear whether the recommendation was adopted or not. However, in its follow-up to the OAG, the MAF commented that:

“The audit, and the subsequent work on addressing the recommendations, has reinforced MAF’s responsibilities for effective and efficient management of the sea container pathway. It also has prompted a rethink back to best management practices”. (ibid)

This comment clearly reflects that the entity regarded the performance audit as a contributor to its improvement in managing sea containers.
Table 4
Managing Bio-security Risks Associated with High-risk Sea Containers: Audit Recommendations and Auditee Response

| No | Recommendations to MAF | MAF Response (directly quoted from MAF (2006))
<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Enforce the requirement of the <em>Import Health Standard for Sea Containers from All Countries</em> for importers to provide information on the destination of a container once it leaves the wharf.</td>
<td>MAF considers that changes to CUSMOD(^{21}) are required to address this and will investigate the difficulty and/or expense in doing so. MAF also acknowledges that a system is needed to inspect containers to be transported long distance overland before they are moved, due to a number of invasive species being capable of “seeding off” en route.</td>
</tr>
<tr>
<td>2</td>
<td>Investigate and implement measures to secure greater compliance with the <em>Import Health Standard for Sea Containers from All Countries.</em></td>
<td>MAF needs greater ability to conduct audits for non-compliant transitional facilities.</td>
</tr>
<tr>
<td>3</td>
<td>Ensure that processes are</td>
<td>MAF is also considering (1) holding all non-compliant containers until documents are</td>
</tr>
</tbody>
</table>

\(^{20}\) The wording for some of the initial recommendations were slightly different from the recommendations in the performance audit report, however they essentially represent the same idea as the recommendations found in the report.

\(^{21}\) CUSMOD is a database that contains customs and biosecurity information on sea containers, entered by custom brokers or importers when making custom declarations (OAG, 2006d, p.24)
<table>
<thead>
<tr>
<th></th>
<th>consistently followed for dealing with sea containers that arrive without quarantine declaration or with an incorrect quarantine declaration.</th>
<th>provided or appropriate actions taken following inspection, and (2) penalising repeat offenders by requiring full inspection of all goods in the container.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Risk profiling of sea containers</strong></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Work with the New Zealand Customs Service to address existing limitations for the electronic recording of biosecurity information for sea containers, and the inability to confirm that all high-risk sea containers are being identified.</td>
<td>MAF notes that the poor electronic recording of biosecurity information is not always the fault of industry as CUSMOD is designed to deal with cargo not containers. Improvements being made to the data systems by MAF need to be included in the memorandum of understanding between MAF and NZ Customs.</td>
</tr>
<tr>
<td>5</td>
<td>Enter the results of sea</td>
<td>While MAF needs to know that the checks have been done, MAF considers that reports should</td>
</tr>
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</tr>
<tr>
<td>container checks by accredited persons into QuanCargo(^{22}) in a timely manner.</td>
<td>focus on useful information rather than on all information. There is no value in reports stating that nothing was found; rather, reports should only be for biosecurity risks that were found. The recommendation has significant resource implications for MAFQS (Ministry of Agriculture &amp; Forestry Quarantine Service).</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Ensure that information on the nature of contamination found by contractors during the decontamination of sea containers is recorded for risk-profiling purposes.</td>
<td>A significant limiting factor in assessing risk and pathways is the lack of species-specific information entered into the system, most specimens not being identified to the species level. In addition, a system whereby transitional facilities could be profiled for risk according to number of exotics found, volume of containers, origin of containers, commodity types etc, would be beneficial in prioritising audits and surveillance programmes.</td>
</tr>
<tr>
<td><strong>Biosecurity clearance for high-risk sea containers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Prepare a national on-the-job training programme for use by trainer-assessors or people with this responsibility.</td>
<td>This has significant resource implications for MAF.</td>
</tr>
<tr>
<td>8</td>
<td>Make available to all its relevant worksites staff who are experienced in training.</td>
<td>This has significant resource implications for MAF.</td>
</tr>
</tbody>
</table>

\(^{22}\) QuanCargo is the Ministry’s computer system (OAG, 2006d, p.34).
and that it support staff with training responsibilities so that on-the-job training is not compromised by the need to complete routine work.

A draft guideline has been recently been developed by MAFQS.

Provide written guidance on the action to be taken when contamination is found on or in sea containers.

A draft guideline has been recently been developed by MAFQS.

This will be addressed in 2006-07 with the planned revision of the Sea Container HIS (Health Import Standard), the General Transitional Facility Operational Standard and alignment with the respective MAFQS Process and Procedures.

See previous comments.

MAF agrees that the effectiveness of fumigation must be verified.

11 Take measures, where timeframes for inspecting sea containers cannot be met, to mitigate the risk of pests moving off sea containers and becoming established.

Investigate options for
<table>
<thead>
<tr>
<th></th>
<th>Providing better assurance that fumigation is effective in eradicating pests.</th>
<th>While the MAFQS are no longer going to act as an Independent Verification Authority (IVA) and will not be doing any treatment audits, IVA’s are being audited by MAF.</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Carry out audits on fumigation operators at the required intervals.</td>
<td>The review of the General Transitional Facility Operational Standard will address this.</td>
</tr>
<tr>
<td>14</td>
<td>Improve management and monitoring of the practices of decontamination facilities.</td>
<td>Equivalent systems are being effected now, particularly for easily identifiable processes like the “inland port” and the places handling empty containers. For off-shore activities it may be better to provide broad and general guidelines.</td>
</tr>
<tr>
<td>15</td>
<td>Prepare guidance and procedures for setting up equivalent systems under the <em>Import Health Standard for Sea Containers from All Countries</em>, which include monitoring requirements to ensure that the equivalent system is adequately managing biosecurity risks.</td>
<td></td>
</tr>
</tbody>
</table>
5.1.4 Department of Conservation

Significant land, natural and historic resources of New Zealand are under the care of the Department of Conservation. In providing for these resources it administers a wide range of legislation, regulations and bylaws (Directory of Official Information, 2005). Its remit includes national and conservation parks, reserves and protected natural areas, protected indigenous forests, protected inland waters, and wild and scenic rivers, wildlife, freshwater fisheries, game birds, historic resources on land under its administration, and managing marine reserves and protecting marine mammals (ibid). It also functions to carry out several roles including giving advice to the Minister of Conservation and managing land and other natural and historical resources for conservation purposes. The Department operates under the core vision of preserving and protecting resources to maintain their intrinsic values, providing for their appreciation and recreational enjoyment by the public, and safeguarding the options of future generations (p.101).

The performance audit carried out in 2006 specifically concentrated on the planning and managing of publicly owned land. According to the OAG report, publicly owned land managed by the Department covers nearly a third of the total land area of the country (OAG, 2006a). In auditing the management of and planning for publicly owned land, the OAG focused on three specific areas which are: strategic planning, management systems and information systems. The AG found that the Department’s performance in managing and planning for publicly owned land “met or partially met” his expectations. According to the report:

“The Department had policies and objectives for land within its statutory planning documents, and comprehensive management and information systems. However, the Department’s strategic planning, management systems, and information systems were not always well connected” (OAG, 2006a, p.7).

23 Those held under the Conservation Act 1987, or those that the owner agrees to be managed by the Department (Directory of Official Information, 2005).
Following these findings, there were nine recommendations made from the audit dealing with a national strategic plan for land, central oversight for land management and land information systems. These recommendations are detailed in Table 5. The DOC’s response to each recommendation is also included in the same table.

Due to the detailed nature of the audit subject, there remained disagreements between the OAG and the Department at the conclusion of the audit. The official documents highlighted these differences in the responses of the Department to the OAG, particularly in areas where the findings did not meet the audit expectations. The Department responded that it operates in a “resource-constrained” context and hence explained that:

“While it might be reasonable to expect comprehensive planning, compliance monitoring, standardised responses, etc in a different context, I need to prioritise planning work, respond to a changing environment, and ensure that processes achieve the desired result” (DOC, 2006b)

Hence, although in the main the recommendations from the audit were accepted by the DOC, there were a small number of recommendations that were not implemented due to the reasons specified in DOC’s response (Table 5). This case provides an excellent example of why some audit recommendations are not implemented by the audited entity. The question is, does the decision to decline audit recommendations hinder performance improvement in the entity? This research will attempt to answer this question through the analysis.
Table 5
Planning for and Managing Publicly Owned Land: Audit Recommendations and Auditee Response

<table>
<thead>
<tr>
<th>No</th>
<th>Recommendations</th>
<th>DOC Response (directly quoted from DOC (2006a))</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strategic Planning for Land</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Give priority to finishing conservation management strategies and national park management plans that it has not prepared or reviewed within statutory timeframes.</td>
<td>The Department accepts this recommendation, but notes that delays may not be avoidable in all management planning processes due to resource shortages (including appropriately qualified staff) and the need to respond to community requests for additional consultation or studies.</td>
</tr>
<tr>
<td>2</td>
<td>Prepare a national strategic plan for all the land the Department manages.</td>
<td>The Department developed, with Treasury collaboration, a draft strategic plan in 1998. At that stage work on the strategy was halted because Treasury could no longer put resources into the work. The Department subsequently reviewed the work. Relevant material was incorporated into the General Policies under the National Parks and Conservation Acts that were completed in April 2005, and after completing that process the Department concluded that any additional national guidance would be best provided through other processes, such as business planning and broader strategic work. The Department does not, therefore, agree with the recommendation of the OAG.</td>
</tr>
<tr>
<td></td>
<td>Land Management Systems</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Prepare guidance for conservancies in</td>
<td>The Department develops central guidance where we consider that this is cost effective.</td>
</tr>
<tr>
<td>Setting priorities within business plans that are clearly linked to statutory policies and objectives for land.</td>
<td>There are a number of standard operating procedures in place, as well as business planning guidance and broader policies. The Department recognises however, that in a decentralised organisation, a balance is needed between achieving consistency and preventing flexibility in the face of local circumstances. In addition, providing standard guidance is an expensive exercise, which diverts resources from other work. The Department therefore prioritises the areas that it addresses. The Department also uses methods other than written guidance to improve consistency and performance. This includes national workshops of staff working in particular areas (e.g. statutory land management, statutory planning), management by walking about, email networks of staff, etc.</td>
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<td></td>
</tr>
<tr>
<td>Formally monitor compliance with relevant standard operating procedures of all land transactions undertaken by conservancies.</td>
<td>Through its conservancy offices the Department deals with a large number of transactions of various types each year. To monitor compliance with the relevant standards in each case would require more resources than we consider warranted. The Department prefers to offer support and guidance through its Head Office staff. Conservancies are encouraged to seek help with complex or sensitive cases. This often involves comment on draft cases, particularly those that have to be referred to the Minister for decision. Some standard operating procedures include templates and recommended case formats which are designed to ensure that the standard requirements are met. As with other operational matters, normal internal audit processes would</td>
<td></td>
</tr>
</tbody>
</table>
provide periodic checks on performance.

<p>| | |</p>
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<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>5</strong></td>
<td>Review recent land transactions undertaken through the Land Acquisition Fund (LAF), and by all conservancies, to identify any common deficiencies and to ensure that the standard operating procedures are followed.</td>
</tr>
<tr>
<td></td>
<td>The amount of detail included in LAF cases varies but all conservancies are aware of the need to make the best possible case for funding and therefore put in the effort they consider necessary. The recommendation template has been revised to specifically provide that the cases must be assessed against the LAF criteria. The assessment of the individual cases by LAF and the feedback to conservancies acts to identify any shortcomings in following the standard operating procedures.</td>
</tr>
<tr>
<td><strong>Land Information Systems</strong></td>
<td></td>
</tr>
<tr>
<td><strong>6</strong></td>
<td>Consider the usefulness of gathering info on the origin of all the individual property it manages.</td>
</tr>
<tr>
<td></td>
<td>The importance of this information is appreciated and the Department’s Land Register attempts to record the details of how an area was acquired or originally set apart. The origin of the area before that is not always readily identified, and is most useful when the information is necessary to aid decision making, say in the case of a revocation or disposal or in the context of a Treaty settlement. In such cases it’s essential for proper decision making and the time and effort to investigate the origin of an area is justified. The information is available on the historic file records where these are held by the Department but in the case of the Crown Land or State forest allocated to the Department in 1987 for conservation areas purposes the Department is unlikely to have the historic records of the origin of those areas.</td>
</tr>
<tr>
<td>7</td>
<td>Review its systems to record land transactions, to gain oversight of the number and type of land transactions occurring within individual conservancies and throughout the country.</td>
</tr>
<tr>
<td>---</td>
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</tr>
<tr>
<td>8</td>
<td>Include on its Land Register (or through links from its Land Register) references to relevant conservation management strategies, reports, inventories, and surveys relating to properties it manages.</td>
</tr>
<tr>
<td>9</td>
<td>Use land conservation value info as part of a programme to ensure that land classifications appropriately protect the land they apply to.</td>
</tr>
</tbody>
</table>

The Department consider that the current record is sufficient for most purposes, and that further investigation into the origin of areas is only justified where that is necessary for decision making. It's doubtful whether the recording of land transactions without an attempt to analyse the nature and significance of those transactions would provide an improved overview of the work of conservancies. The effort that would be involved is unlikely to be justified by the results.

The Land Register is primarily to record the legislative status and legal description of the areas. The Department is not seeking to use that particular tool to provide linkages to relevant management documents. Other tools, such as the paper file system and related cataloguing systems, are the primary mechanisms used for this purpose.

It is recognised that current classifications are historic in nature, and do not necessarily reflect the conservation values of the land. This does not, however, necessarily mean that the land has an inappropriate level of protection. For example, stewardship status generally provides an adequate level of protection despite not providing the status that an
Ideally, the legislation would be reviewed to provide far smaller range of land classifications, with more logical protection levels and criteria. This would make reclassification far easier. Such reform was considered in 1989, and abandoned due to public opposition to changes to some classifications and the complexity of the issue. It was considered and rejected again in the context of the Conservation Amendment Bill 1994-96.

As a result of both the legislative complexity and the strong public and sector interest in classification changes, land re-classification can be a very expensive exercise. With over 10,000 parcels of land, re-classifying the entire system would clearly be unjustifiable.

The Department has therefore worked with NZCA to develop prioritising criteria for land classification work.

Those criteria recognise that the priority for reclassification is those circumstances in which this will improve the protection of the conservation values, directly or by generating greater community support for their conservation, or improve administration (e.g. by reducing unnecessary fragmentation of administrative boundaries or allowing the transfer of administration to a community group).

The Department will continue to address classification issues where they are deemed to be a priority in terms of these criteria.
5.1.5 Housing New Zealand Corporation

HNZC is a Crown entity that works closely with the Minister of Housing and provides housing and housing-related services to New Zealand citizens. It operates under the core vision of providing “access to decent homes, helping New Zealanders manage their own circumstances and contribute to community life” (Directory of Official Information, 2005, p.249). As a corporation in the public sector, the entity functions in a commercial manner with social objectives. It aims to exhibit a sense of social and environmental responsibility, and operate with sound financial oversight and stewardship (ibid).

An area of service provided by HNZC is buying and leasing properties for state housing. The performance audit carried out in 2006 was targeted to assess the effectiveness of the programmes used to provide this type of service. In terms of the statistics, state housing is a significant service in the housing industry. As of 2006, there are 66,000 state houses valued at more than $11 billion controlled by HNZC, with 190,000 people receiving state housing services. In addition to that, the applicants in line for a state house amounted to 11,458 for the period ending 30 June 2005 (OAG, 2006c). On the basis of these numbers, the AG decided to audit the effectiveness of the programmes adopted by HNZC in buying and leasing state properties. The audit found that the Corporation had effective buying and leasing programmes, which were performing well against programme targets. There were, nonetheless, areas identified for improvement spanning across planning, acquiring houses, monitoring and reporting activities. There were six recommendations “to help the Corporation ensure that its documentation is complete, to increase its knowledge about the costs to the Corporation of leasing properties from private owners, and to enhance the public reporting of its performance” (p.6). These recommendations and the reported progress are detailed in Table 6.
### Table 6

**Effectiveness of Programmes to Buy and Lease Properties for State Housing: Audit Recommendations and Auditee Response**

<table>
<thead>
<tr>
<th>No</th>
<th>Recommendations to the HNZC</th>
<th>Reported progress (directly quoted from HNZC (n.d.))</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Planning for buying and leasing houses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Undertake work to understand the full costs of lease management to the Corporation.</td>
<td>Terms of reference developed. Programme of work agreed (larger than initially envisaged). Cost analysis completed and reviewed by finance. Report completed June 2007.</td>
</tr>
<tr>
<td><strong>Buying and leasing houses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Include a checklist of the mandatory documentation to be included on each file in its quality management system guidance for buying and leasing.</td>
<td>Completed late August (2006).</td>
</tr>
<tr>
<td>3</td>
<td>Prepare a strategy for making the best long term use of properties acquired in the absence of more suitable properties identified in the Asset Management Strategy and Regional Asset Management Plans.</td>
<td>Completed. Strategy developed and made operational through an amendment to the Asset Management Strategy. Quality Management System (QMS) process developed and is operational.</td>
</tr>
<tr>
<td><strong>Monitoring and reporting</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Provide more details about the three Auckland regions in its annual reporting to the Minister of Housing and the Minister of Finance.</td>
<td>Business Planning and Strategy (BP&amp;S) have confirmed that they have addressed this recommendation in the monthly and annual reports and these reports (monthly) already incorporate a number of enhancements which reflect this.</td>
</tr>
<tr>
<td>5</td>
<td>Provide more details about regions of high need in its annual reporting to the Minister of Housing and the Minister of Finance.</td>
<td>BP&amp;S have confirmed that they have addressed this recommendation in the monthly and annual reports and these reports (monthly) already incorporate a number of enhancements which reflect this.</td>
</tr>
<tr>
<td>6</td>
<td>Include the risks associated with the renewal of leases in its national risk management framework, and prepare a recommended approach for regions to use in addressing those risks.</td>
<td>Completed.</td>
</tr>
</tbody>
</table>
From the official documents provided by the HNZC, there were no apparent issues with the recommendations made by the OAG. The Corporation accepted all recommendations and reported back to the OAG on the actions taken in response to the recommendations. It also prepared an action plan, stating that the recommendations were “reasonable for the Corporation to implement” (HNZC, 2006, p.2). Further, in its report to the Minister of Housing, the action plan and progress as of June 2006 indicated that the Corporation was taking prompt actions in response to the recommendations (ibid).

5.1.6 Ministry of Education

The Ministry of Education is the leading advisor to the government on the education system, and it functions to support and realise the government’s education goals. The government has set overarching goals that comprise building an education system that equips New Zealanders with twenty-first century skills and reducing systemic underachievement in education (Directory of Official Information, 2005). In line with these goals, the Ministry functions towards the mission of raising students’ achievement and reducing disparity between the highest and lowest achieving students (ibid). In view of achieving its goals, the Ministry identified three vital outcomes which are believed to give the greatest difference.

One of these outcomes, one over which the Ministry has the most influence, is the quality and effectiveness of teaching to all students. To provide effective teaching, the OAG believed that the school property portfolio should be sufficient, suitable, and well maintained, leading to the audit on management of the school property portfolio in 2006. The OAG also recognised the significance of the capital value of the school property portfolio which amounted to $7,000 million as of 2006 (OAG, 2006e, p.5). This makes the portfolio the second largest publicly owned property portfolio, incorporating land, buildings and infrastructure (ibid). The audit focused on three main aspects of school property management by the Ministry which are; organisational arrangements, strategic management and overseeing of capital
projects and maintenance. As a result of the audit, the OAG was generally satisfied with the accountability arrangements, but was less satisfied with maintenance arrangements. The twenty four recommendations that followed these findings covered the area of planning, systems, people management and Board of Trustees, which include devising common goals for managing school property, producing strategic plans and monitoring how schools are spending their maintenance funding. The recommendations are specified in Table 7.

Substantial progress has been made within the Ministry in relation to the management of the school property portfolio, largely resulting from the introduction of new processes for planning and funding school property. The new processes were implemented as part of the government’s policy to give school boards greater control over the management of their schools (OAG, 2006e, p.2). The audit has also encouraged greater initiative for the Ministry to review and improve the management of school property portfolio, which was evident in a report by the Ministry:

“In 2006, a report by the Office of the Auditor General raised concerns about the management of the school property portfolio. Cabinet also raised concerns in 2007/2008, directing the Ministry of Education (the ministry) to report quarterly to the Ministers of Education and Finance on its work to improve school property management.

Cabinet’s concerns focused on the large amount of committed property funding, delays in implementation of the programme, the cost of new schools and the timing of approvals being sought from Ministers or Cabinet.

In response, the Ministry initiated an extensive review (the School Property Review) to develop a long-term strategy for managing the school property portfolio. The strategy was intended to produce improved asset and financial management, a better planned approach to disbursing capital and operating funding, and more accurate reporting of all property assets.” (MOE, 2009, p.6)

This report attributed the initiative towards improving management of the school property portfolio partly to the performance audit in 2006, and partly to Cabinet’s concerns in 2007/2008. Therefore for the audit on MOE, there is evidence to suggest that the audit encouraged performance improvement, although the initiative was coupled with concerns raised by the Cabinet. In
terms of the recommendations made by the audit, work was currently underway for most of the twenty-four recommendations, which implies that the recommendations have generally been accepted by the Ministry. The Ministry’s response to each of the recommendations is provided in Table 7. It is not clear however, the extent to which improvements can be directly attributed to the recommendations as opposed to the new processes introduced as part of the government’s policy. This has similarities to the audit on FRST whereby simultaneous to the audit, a plan was put in place to address issues identified by the entity prior to such issues becoming audit findings. In this sense, the official documents provided limited information with regard to the impact of performance audit on the audited entity.

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24 This response was directly quoted from MOE (2008).
<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Planned Response</th>
<th>Update 23 June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Planning</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Recommendation 1: The Ministry devises common goals within the organisation for managing school property, ensuring that policy objectives are translated into operations performance targets. | Network Provision Plan to be developed. It will be in the context of:  
- Ministry’s vital outcomes/population strategies  
- Minister’s 8 priority areas  
- Schooling strategy  
- School property management framework which underpins 5YP and SPG policies | Review of school property management was undertaken in late 2007. The Ministry is reporting on a regular basis to Ministers of Education and Finance on progress of review. Business case is currently being prepared to recommend programme of work to be undertaken. |
| Recommendation 7: The Ministry produce a strategic plan for school property management that is clearly linked to the Ministry’s wider education aims. | It will be framed by what we do:  
- Ensure there is sufficient property  
- Improving the quality of our property stock  
- Timely disposal of surplus property  
- Effective management of the school property portfolio  
The plan will cover:  
- What we are trying to achieve over the next 5 years | |
| People Management                                                                 | 1. Related activities that will improve role clarity:  
|                                                                                   |   ▪ Network provision plan  
|                                                                                   |   ▪ Property management handbook (PMH)  
|                                                                                   |   ▪ Performance management training  
| Recommendation 2: The Ministry identifies the main expectations of network staff nationally and ensure that these are reflected in their job descriptions.  
|                                                                                   | 2. A review of network facilitator job descriptions will be undertaken as part of the PMS.  
|                                                                                   | 3. A review of process maps established by Lower Hutt office to commence term 3 forums.  
|                                                                                   | 4. Training programme to be developed covering:  
|                                                                                   |   ▪ Network provision plan  
|                                                                                   |   ▪ 10YPP  
|                                                                                   |   ▪ PMIS  
|                                                                                   |   ▪ Relationship management  
|                                                                                   |   ▪ Industries we are part of: education, construction, project management  
| Recommendation 3: The Ministry introduce documented business processes for network staff defining responsibilities and key requirements for record keeping, which are subject to quality control.  
| Recommendation 4: The Ministry review training needs of network staff in property management and introduce formal training programmes.  
| Recommendation 8: The Ministry explicitly links delivery targets included in the Education & Improvement Support plan to aims and objectives in the school property management strategic plan. | 1. New PMH implemented: including staff training, school briefings and industry briefings.  
<p>|                                                                                   | 2. Further work will be identified in above school property review. |</p>
<table>
<thead>
<tr>
<th>Advice to Boards of Trustees (BOT)</th>
<th>PMH</th>
</tr>
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<tbody>
<tr>
<td>Recommendation 5: The Ministry regularly evaluate and review training provided to school BOT.</td>
<td>Review the BOT training contract on renewal to consider options to update the training provided to boards. Consider options to include a property management option on the PDC programme. Seminars are held with boards in the period leading up to the renewal of their 5YP. Consultant seminars are also undertaken.</td>
</tr>
<tr>
<td>Recommendation 6: The Ministry actively encourage collaboration between schools in sharing facilities and jointly contracting for capital and maintenance work.</td>
<td>Local offices to include examples of collaboration between schools in future newsletters. Encouragement to be included in: • The new PMH; • Advice to schools included in the SPG programme.</td>
</tr>
<tr>
<td>Systems</td>
<td></td>
</tr>
<tr>
<td>Recommendation 10: The Ministry arrange independent validations of the information held in the PMIS</td>
<td>A project will be established to review PMIS. This review will include PMIS work is delayed due to work on</td>
</tr>
</tbody>
</table>
PMIS and introduce consistent internal procedures for checking data.

Recommendation 11: The Ministry determine how to improve systems that are used to hold information about property.
- a stock take on the current system and evaluation of future need
- design of a new property management information system
- a review of data within the system
As an interim measure to support network facilitators to maintain its accuracy of PMIS – schools will be asked to validate the information held on PMIS as part of their 10YPP approval.

Recommendation 12: The Ministry determine how to improve the integration of property information with its financial management system.
- Work underway. Forecast to be completed by June 2007.

**Maintenance**

Recommendation 19: The Ministry ensure that the pilot audit of schools provides adequate information about the condition of school property.
- Continuing on with the maintenance assurance programme already in place.

Recommendation 20: The Ministry determine how the results of audit will be used.
- Ongoing contract in place.

The Ministry holds a copy of each school’s 10YPP. It does not consider it necessary to hold individual school maintenance plans in electronic form.
<table>
<thead>
<tr>
<th>Recommendation 21: The Ministry respond appropriately to schools that are failing to maintain their property.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Ministry believes it is best to focus its effort on the outcome, i.e. how well the buildings are being maintained. In the event buildings are not being maintained then further investigation be undertaken to determine why the school’s buildings are not being maintained. Therefore this will be a 2nd sieve response where for schools highlighted in the maintenance assurance programme referred to above.</td>
</tr>
<tr>
<td>Reviews of school maintenance plans son how no further action required at this stage.</td>
</tr>
<tr>
<td>Recommendation 17: The Ministry monitor how schools are spending their maintenance funding to identify schools that are significantly under-spending, and to ensure value for money is received.</td>
</tr>
<tr>
<td>Recommendation 23: The Ministry introduce monitoring of the selection process used by schools to award contract for maintenance.</td>
</tr>
<tr>
<td>Recommendation 18: The Ministry monitor the sustainability of its formulae for maintenance funding to ensure there is sufficient funding to maintain their property in a good state of repair.</td>
</tr>
<tr>
<td>Recommendation 24: The Ministry provide guidance to schools about the issues they need to consider, including value for money, before entering into long</td>
</tr>
<tr>
<td>Still waiting for OAG evidence.</td>
</tr>
<tr>
<td>General review of operations grant funding is in progress.</td>
</tr>
</tbody>
</table>
term maintenance contracts.

<table>
<thead>
<tr>
<th>Other issues</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 13:</strong> The Ministry, in determining targets for the disposal of surplus school property, identify differentiated targets for property that can be disposed of quickly, and property that will take longer to dispose of.</td>
</tr>
<tr>
<td><strong>Recommendation 15:</strong> The Ministry reviews the criteria for appointment of project managers.</td>
</tr>
<tr>
<td><strong>Recommendation 14:</strong> The Ministry extend its oversight of capital projects to include a review of completed projects to determine the effect on the overall condition of the school property portfolio.</td>
</tr>
<tr>
<td><strong>Recommendation 16 / 22:</strong> The Ministry encourage schools to improve the economic and environmental performance of their property by requiring them to calculate the whole of life costs of capital projects and maintenance projects.</td>
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</tbody>
</table>
5.1.7 Ministry of Social Development

The Ministry plays a vital role in the welfare of New Zealanders by leading the nation’s social development and providing social services to more than one million people (Directory of Official Information, 2005). It also provides strategic social policy advice to the government and works closely with government and non-government agencies, advisory and industry groups, and communities and Iwi (MSD, 2009b). It carries a major societal role, helping families, youth, elderly and students. In carrying out this role, the Ministry provides a wide range of services, from statutory care and protection to providing funds in the form of loans or allowances. It operates with the vision to achieve an inclusive New Zealand where all people are able to participate in the social and economic lives of their communities (ibid).

Within the range of services provided by the Ministry is the Work and Income section that offers income support and employment services to society. As a main service delivery arm, Work and Income has set up a contact centre to assist the delivery of services to its clients. The OAG recognised the growing importance of the contact centre in the efficient and effective delivery of services and hence performed an audit on the centre in 2006 (OAG, 2006f). There were three main audit focuses, namely service practices, support management systems and relationship with other areas of Work and Income. The OAG was generally satisfied with the systems and processes put in place by Work and Income for the contact centre. However, it identified five sets of recommendations, mainly concerning the measuring of service level performance and business planning. These recommendations are specified in Table 8.
Table 8  
Performance of the Contract Centre for Work and Income: Audit  
Recommendations

<table>
<thead>
<tr>
<th>No</th>
<th>Recommendations to the MSD (OAG, 2006f)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>The contact centre’s relationship with callers</strong></td>
</tr>
<tr>
<td>1</td>
<td>In conjunction with existing monthly service level targets, Work and Income set a consistent daily service level target for the contact centre, expressed as a range.</td>
</tr>
<tr>
<td>2</td>
<td>Performance against this daily target be included in the contact centre’s formal monthly reporting to the Work and Income Executive. These reports should include explanations for any variation from the target range, together with a plan to address the underlying cause.</td>
</tr>
<tr>
<td>3</td>
<td>The contact centre’s formal monthly reporting to the Work and Income Executive include its service level performance by 15-minute interval.</td>
</tr>
<tr>
<td>4</td>
<td>The contact centre identify all possible causes of current variations in daily service levels, and provide the Work and Income Executive with an analysis of options for addressing these.</td>
</tr>
<tr>
<td></td>
<td><strong>Operations support</strong></td>
</tr>
<tr>
<td>5</td>
<td>The contact centre prepare an annual business plan.</td>
</tr>
</tbody>
</table>

The response received from the Ministry regarding the audit was very positive. The Ministry responded that “the contact centre accepted and implemented all recommendations made in this audit” (MSD, 2009a). In particular, the MSD reported that:

“The Work and Income Contact Centre has accepted the five recommendations in relation to service level and will implement these from 01 July 2007.

The contact centre has also finalised a three year strategy and will draw up an annual business plan for the 2007-08 financial year.” (MSD, 2006, p.2)

As of 2009 the recommendations made had been operationalised and included in the recent developments within Work and Income. For example, the Contact Centre Report for Work and Income Executive 2007 included reporting measures that were recommended by the audit, and also the preparation of the 2007/08 Annual Business Plan of the Work and Income
Contact Centre was prepared in accordance with the audit recommendation. The performance audit hence promoted further improvement in the way that the MSD operates the contact centres, particularly through better performance measures and annual business planning.

The performance audit reports and official documents were useful in providing information about the audits, as well as the auditees’ responses. From the seven performance audit reports reviewed, there were sixty eight recommendations made in total, and sixty six responses to each of the recommendations were obtained from the official documents (some of which were fully accepted and implemented by the auditee). From these responses, it was found that the audit recommendations were generally accepted and implemented. Nevertheless, the performance audit reports and official documents provided limited information in regards to auditee’s experience and insights as participants of the audits. There is also difficulty in determining the extent of the impact on the entity and a way that this can be determined is by exploring the impact experienced by the auditees, particularly with their management and operations. Therefore to enrich the data for this research, interviews were carried out with a focus to acquire the experiences and insights of the auditees.

5.2 Interviews

As explained in section 4.1.2, there were four interviews carried out in this study. The interviews have proven to be useful in capturing the experiences of the auditees, and in illustrating performance audit practices in New Zealand. The main findings from the interviews are as follows:

5.2.1 Interview 1

The two interviewees from this entity were generally satisfied with the performance audit carried out on their entity. They felt that the OAG had a robust audit process, and viewed the audit as no different from any other audit or external review. As experienced managers they considered they knew what

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25 To protect the identity of the interviewees, the entities are not listed in the same order as Table 1 in Chapter 4.
to expect from such audits in terms of the processes and approaches. Hence they were comfortable with the idea of performance audit and did not view it as a threatening activity. They were also satisfied with the published report of the audit, and advised that other than the report being presented to the relevant select committee, there was no response received from any other stakeholders regarding the published report.

During the audit, there were several differences in views between the OAG and the entity, which the interviewees considered had been handled in a professional manner. For example, during the discussion of the terms of reference, there were areas that the OAG wanted to cover, but where the entity did not think results arising from the area would necessarily add significant value to the entity. Some aspects were therefore excluded from the audit scope. There were also differences in terms of the audit findings and recommendations, and the interviewees attribute this mainly to the differences in perspectives held by the entity and the OAG. In particular, the OAG maintained a legislative point of view that focused on meeting statutory and accountability expectations, whilst the entity maintained a managerial and operational point of view which emphasised practicality and workability of the recommendations. However, despite these differences, the entity accepted and has followed up the rest of the recommendations made by the audit.

Although there are differences in views between the OAG and the auditee, the interviewees did not have any concerns about the auditors’ expertise. They did not expect the auditors to fully understand their work because:

“…auditors by their nature are never going to know enough about any business because it’s about taking a sample approach. So by definition, the expertise is going to be with the organisation that’s actually being looked at rather than from the auditor’s perspective and that’s what the audit is all about.”

The interviewees also recognised that due to the nature of their business, it is very difficult for the auditors to ever have expertise or knowledge sufficient to fully understand their entity as a whole. The same applies to bringing in
outside expertise to provide advice to the auditors, as the interviewees felt that their business was unique in terms of their remit and operations.

The occurrence of differences in views and respect for each other’s job highlighted the professional relationship that the auditor and auditee shared. Both interviewees agreed that their entity had a good relationship with the auditor, and that the whole audit process was carried out in a thoroughly professional manner. One interviewee also commented that; “I don’t think there was any animosity at all between the people doing the audit and our people that were providing information”. Hence the auditees were clearly satisfied with the relationship with the performance auditors.

In terms of the impact, the interviewees considered that the performance audit did not leave a huge impact on their entity and only lent some assistance to performance improvement. One interviewee commented that;

“To be candid I don’t think there has been a huge change, to be honest. We’re always intent on making improvements and so on, but often there are tweaks around, and remember that we are constrained by the legislative processes we must follow, the conditions and expectations on all the legislation, and that’s our primary purpose.”

The other interviewee commented that the differences in views that they had to some extent hindered performance improvement through the audit recommendations.

“I think one of the difficulties that you always have between an operational department and an audit team is the different views that they take in terms of what they’re looking for in an audit process. So from an operational perspective, some of the recommendations that they came up with in our view, were not sensible in respect to how we could actually move to where they wanted us to be, particularly where we had disputes; where they were recommending one approach when our view very strongly was that that approach was not workable for the department, or for the Crown.”

In addition, there were also other factors that limited improvement, and hence the impact that the audit had on the entity. For example, one of the recommendations was on giving priority to preparing management strategies
within statutory timeframes. However, the interviewees explained that this is a complex process which involves a range of external groups like the community, non-governmental organisations, political parties and oversight boards. Therefore although the entity can prepare the strategies within the statutory timeframes, there are many levels of complexity involved which are not within the control of the entity, like the signing off of the strategies or disputes between different interest groups.

The interviewees perceive performance audit as a control mechanism over the performance of public entities, rather than a force behind performance improvement. On the role of performance audit, one interviewee said that:

“It is an essential part of running any business to actually get feedback from external people now and again on how you’re running your systems. So I don’t have a problem with that and the performance audit whilst somewhat different from the normal audit routine that we have at year end for example, it’s still a valid approach in terms of checking every now and again those things which are reasonably large components of our business.”

He also stated that “ultimately it comes down to who has the accountability and the responsibility for carrying out a particular business, and in this case it’s the (chief executive), and then the management within the organisation”.

5.2.2 Interview 2

Like the entity in Interview 1, this entity was also satisfied with the whole audit process, as well as the outcomes of the audit. In particular, the interviewees thought it was a good audit which went very well, and had high regard for the OAG and the AG. They recalled it as a thorough review where the auditors covered “end to end” processes of the entity, and that the auditors ensured that they had a good understanding of the entity.

“In a true sense of project management the OAG identified all the tasks needed to be completed to complete the review, so that consisted of documents that they wanted to review, people they wanted to meet to understand the process and ask a few probing questions of course…they went through the whole process…that included all of the review and monitoring processes right through the whole end to end process.”
With such high regard for the office, it was not surprising that the interviewees believed that the auditors possessed the necessary skills and professionalism required to undertake the audit.

“The people that they used had a wide breadth of what I’d call…management experience, general experience and it was enough for the purpose in terms of this review…a good audit carried out by proficient, what I’d termed as fairly smart people that knew what they’re about, very business like…they did have a good sense of humour, they were good at being able to relate to us and easy to get on with.”

One of the interviewees also commented that as professionals he believed that the auditors were credible in the opinions or recommendations that they provided.

Although the audit recommendations were taken very seriously by the entity, the interviewees thought that the audit did not have a huge impact on the entity. They thought the reasons were twofold: firstly it was an audit on relatively simple processes that did not include high-risk issues, and secondly they believed that there already had been a good internal review system in place to detect such issues. In particular, one of the interviewees commented:

“I don’t think it (the audit) had a big influence on processes…internally we’ve reviewed the processes as well and I mean from delivery, internal-control perspective, aren’t too bad. I mean they are pretty vanilla products…it’s a pretty simple process. When you go to the recommendations, nothing came as a surprise and I can’t recall anything sticking out that has made a huge difference to the way the entity currently carries out its business today.”

He further stated that although the entity was satisfied with the outcomes of the audit, he would describe the audit as a “fairly benign sort of review”, “fairly routine performance review”, “nothing earth-shattering” and “a bit more than housekeeping, but not much more than housekeeping”. This is mainly due to the low risk consequences associated with the audit recommendations. Furthermore, the interviewees also thought that the issues
would have been picked up even without the audit, as they believe they already have sufficient internal systems in place.

However, despite the low impact that the entity perceived that the performance audit had, they added that it was still a useful tool. One of the interviewees did interpret performance audit as providing useful feedback in terms of economy, efficiency and effectiveness. However, he was mistaken in perceiving performance audit to be part of the statutory “controller function” performed by the AG on public entities. That aside, the relatively modest impact of performance audit perceived by the auditee can be translated into a more important function of overseeing performance accountability, rather than primarily promoting performance improvement in public entities.

5.2.3 Interview 3

The interviewee described the experience with the audit as a good experience, and that his entity was also satisfied with the audit. At the start of the audit the entity was concerned at the prospect of the audit because not long before the audit took place a report of another performance audit made its way to the front page of a local newspaper. In addition, they recently had a change in higher level management personnel, hence the relatively new people with the organisation were not entirely sure of the robustness of the systems and procedures. The interviewee recalled that the entity was very pleased that the audit didn’t find any major issues, although they also believed that their systems were fairly robust. Apart from regarding the whole audit process as fair, the interviewee also perceived the audit as providing a chance for him to learn more about his entity, as he was assigned to be the liaison officer for an audit that included areas outside of his managerial responsibilities.

As the main contact person for the audit, the interviewee said he had maintained a good relationship with the performance auditors throughout the audit. Coming from an auditing background, he stated that:
“…I have a bit of empathy for auditors…I always try to make the job as easy as I can for them but they were really easy to deal with as well…consultation process was good, you know it was very fair.”

Having been in auditing before, he added that he was a little surprised to find that the performance auditors did not hold an accounting background. In addition, he also noted that his entity was very clear as to why the audit took place. He added that:

“…they (the auditors) are not just doing the audit for the audit’s sake, there has to be some reason for it, and there was a reason for this and the results were important to us. So we really needed to put in effort into helping them get it done and make sure there were no snags or obstacles in the way of them actually getting the work done. It was just a matter of good customer relations to keep your clients or customers happy, and it was fairly easy to do.”

This account reflects the cooperation and the accepting attitude that auditees show towards the work of performance auditors, although interestingly the interviewee referred to the auditors as the “clients” or “customers”.

In terms of performance improvement, on the one hand the audit did highlight a weakness in their database system, however on the other hand planning to upgrade the database system was already underway even prior to the audit. The interviewee said that the audit reflected what he had been experiencing with the system, particularly in accessing and linking data as there was no generic database system. However, the recommendation on this area was going to be introduced as part of a major plan, which was still in its drafting stage at the time of the audit. According to the interviewee, nearly three quarters of the audit recommendations were going to be incorporated into the plan. Hence the recommendations weren’t perceived as difficult to implement, and were not expected to incur significant additional resources as most were already part of the plans the entity had. Despite this, the interviewee pointed out that they did take the recommendations seriously, and that the recommendations were listed as ‘matters arising’ in their Audit & Risk Committee papers. Apart from those already incorporated in the major plan,
other recommendations have been implemented and were deemed useful to the entity.

The interviewee viewed performance audit as having an assurance role, as opposed to improving performance due to the limited impact brought about by the audit. He said; “I think it was just the confirmation that everything was fairly okay in terms of getting the results of the audit”. Furthermore, he also suggested that the entity prefers to have an independent reviewer to assess the fairness of their systems and procedures, and hence was more than pleased when the OAG offered that opportunity through the performance audit.

5.2.4 Interview 4

In this interview, the interviewee thought that the audit on his entity was “quite efficient and time well spent”. The OAG carried out interviews with a lot of people around the entity, and held several meetings with the key people in the area audited, including the interviewee. He didn’t see this audit process as impacting their day to day operations and thought the time spent on the audit was worthwhile. Furthermore, he believed that the final audit report published reflected “what everybody said”. In his capacity as the manager in charge, he didn’t agree with some of the points but trusted that those were still included in the final report because the auditors “had feedback from other people, so they thought it was important they included that in the report”.

It was a good audit report and the entity had a good relationship with the auditors. However, in hindsight the interviewee thought there would be some benefits from external expertise in assisting the audit. On this he commented: “At times we felt that she (the auditor) didn’t understand what we were trying to explain to her…and so having someone at least, not necessarily the auditor, but someone who’s actually with them that could provide some technical expertise to the audit I think would have been helpful…it was just really the understanding of some of the technicalities I felt that didn’t come through in the feedback.”
The auditors also used international benchmarking, which the interviewee thought did not necessarily reflect the New Zealand system and this was also not reflected in the feedback. Hence the interviewee suggested that:

“…the audit would have been, or we might have got some more information if the person doing the audit had a little more understanding of the New Zealand setting, and also had someone who could give some support around technical advice.”

This is therefore a point worth considering, not to question the expertise and credibility of the auditor, but to enhance the feedback and hence the outcomes of performance audit on the audited entities.

In the main, the interviewee regarded performance audit as useful and that it promoted performance improvement in their entity. In particular, he thought it helped with the general management discipline within the entity, as well as the general systems in place. On the area of good management disciplines, the OAG emphasised planning, people management and also relationships with external groups like oversight boards. The audit also helped the entity in terms of operational systems, as it encouraged the entity to review its systems and make better decisions. The audit also fostered motivation among staff as it created greater awareness for shared goals. In addition, the audit created an environment where “everybody knows what the goals are, what they’re working towards” and that was seen as a significant improvement. Regarding the audit findings on the management information system, the interviewee commented that:

“When they (the auditors) undertook the audit, a lot of their feedback was reflecting what our people were saying. So the people that used the system were saying it was old, it was difficult, and hard to get up to date…The audit was just something that triggered the change.”

Overall, the interviewee thought that the audit had made some aspects of their business more efficient, and hence fostered performance improvement.

Nonetheless, despite considering the audit as useful, the interviewee believed that the issues would have been picked up by the entity, although within a longer timeframe, and also there were a couple of the audit recommendations
that were not accepted. Furthermore, some recommendations required time to be implemented, hence may delay the overall impact of the audit. There were remaining differences at the conclusion of the audit, thus a couple of the audit recommendations were not implemented. In particular, the interviewee thought some of the audit findings were not quite right “but they (the auditors) wanted to keep that in their report”, and thus the recommendation which followed this finding was not implemented because the entity maintained that it wasn’t part of its role. There were also recommendations that required substantial resources, especially in terms of staff time and the number of people involved, like changing reporting lines. Hence whilst the entity is progressing these issues, they are not fully implemented even three years after the audit, and therefore the full impact of the audit on the operational aspect of the entity may take much longer to materialise.

Essentially, the interviews captured auditees’ attitudes towards performance audit and their experiences being participants of the audits. The auditees generally welcome performance audit as an accountability instrument that provides assurance to the stakeholders and did not experience significant changes resulting from the adoption of the audit recommendations. The auditees and auditors share a professional relationship where the auditees were satisfied with the audit processes and professionalism shown by the auditors. However, one audited suggested that the usefulness of audit recommendations could be enhanced with the assistance of external expertise that can provide technical know-how and better understanding of the local setting.
Chapter Conclusion

The data sources used in this research provided useful evidence for the study of performance audit in practice. In particular, the performance audit reports served as the main platform to communicate with stakeholders on the reasons for the audit, the audit methodologies and processes, the findings, and the recommendations made to the auditees. These reports therefore, recorded essential information regarding the audits in the sample. Generally, the official documents recorded correspondence pertaining to the audits, for example correspondence between the auditees and the auditors, as well as reports from the auditees to the responsible Ministers. In addition, there were also organisational documents like action plans and progress reports that recorded the actions taken in response to the recommendations. The official documents were useful in providing evidence of the professional relationship shared by the auditors and the auditees, and also in reflecting the attention given to the audit recommendations. However, both the performance audit reports and official documents provided limited information regarding the experience of the auditees during the audits. To gain insights into their experiences, the interviews carried out with the auditees proved to be very useful in providing such information. The interviews not only provided first hand accounts of auditee participation in performance audit, but also confirmed information derived from the other data sources, like the professional relationship shared by the auditees and auditors. The three data sources therefore, complemented each other in terms of the information offered for the purpose of this study. As a result, the use of all three data sources offered strong evidence towards a better understanding of performance audit practice in New Zealand. Most importantly, these data sources provided the answers to the research question, which will be further discussed in the next chapter.
Chapter Six – The Impact of Performance Audit and Additional Insights

Based on the findings presented in Chapter 5, this chapter discusses the question: What is the impact of performance audit on audited entities in New Zealand? The chapter also presents additional insights gained with regard to the practice of performance audit in New Zealand.

“Analysis is about thinking, and thinking is the one thing the computer can’t do.” (Corbin and Strauss, 2008, p.316)

Chapter Introduction

The literature review in Chapter 2 highlighted the dearth of studies on the impact of performance audit. The few studies in this area generally provide the impression that performance audit in practice leaves no significant impact on the auditees (Hatherly and Parker, 1988; Shand and Anand, 1996; Morin, 2001). These studies also provided insights into the area that might be useful in indicating the impact of performance audit. Hatherly and Parker (1988) for example looked at the acceptance and rejection rate of audit recommendations, and the reasons that these recommendations were rejected. Morin (2001) on the other hand, studied the factors that affect the success or failure of performance auditing in influencing the auditees. Additionally, prior studies also offered an interesting comparison to the findings of this study, particularly in terms of the acceptance of audit recommendations and the means by which these recommendations have impacted the audited entities.

The discussion in Chapter 5 illustrates the importance of audit recommendations as the manifestation of the impact of performance audit on the audited entities. In particular, the responses made to the audit recommendations reflected on how the audit recommendations have, or have not, impacted the entity. Generally, most of the recommendations made by the OAG were accepted by the audited entities, although such cannot be said about some of the recommendations due to lack of evidence for the purpose of this study. For example, the official documents provided by the Treasury did not contain evidence with regard to the two recommendations made in the audit and hence no inference can be made. In addition, some of the responses also
did not explicitly state whether the recommendation was accepted and subsequently adopted, or otherwise. However lack of evidence on the acceptance or disagreement only applies to a small number of the recommendations, and the responses to the recommendations were generally positive.

The literature review also found that performance audit was targeted at performance improvement and performance accountability, although the relationship between these two goals remains arguable (Barzelay, 1996; Roth, 1996; Sloan, 1996). The achievement of these goals could also be translated into the impact of performance audit if the auditees experience performance improvement and enhanced performance accountability as a result of the audits. Such assessment can be made provided that there is cooperation from the auditees in providing information on how performance audits affect performance improvement and/or performance accountability of their entity. Hence, in addition to auditee responses to the audit recommendations, this study also analysed auditees’ experience from the information provided in the interviews to assess if indeed performance audit goals are achieved in practice, and how the entities are impacted by the achievement of the goals.

This chapter therefore, discusses performance audit impact as a manifestation from the audit recommendations, as well as the achievement of performance audit goals which are translated into the impact of performance audit. In particular, this chapter looks at the changes brought about by the implementation of the audit recommendations on the audited entities, and whether the auditees experience improvement in performance and enhanced accountability resulting from the audits carried out. In addition, this chapter also presents additional insights gained on performance audit practice in New Zealand, gained from the research findings and analysis.

6.1 Summary of the Responses to the Audit Recommendations

According to the OECD (1996, p.95), the New Zealand OAG:
“…consults closely with auditees as part of quality control and auditee comments are included in their response to Parliament. The Office generally measures its impact by the number of recommendations accepted”. 

Therefore, in the first instance this study looks at the acceptance of audit recommendations derived from auditees’ responses for the impact of performance audit. The responses from the audited entities were derived from the official documents. Table 9 and Table 10 provide a summary of the responses to the audit recommendations presented previously in section 5.1.

**Table 9**

**Summary of Auditee Response**

<table>
<thead>
<tr>
<th>Performance Audit</th>
<th>Acceptance of recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Treasury: Capability to recognise and respond to issues for Maori</td>
<td>N/A</td>
</tr>
<tr>
<td>Foundation for Research, Science and Technology: Administration of grant programmes</td>
<td>The FRST generally agreed with the recommendations of the audit. There were nonetheless, three (out of seven) recommendations that received responses which provided no evidence that were indeed adopted. These recommendations in particular were: recommendations 1, 3 and 7. The FRST was satisfied with the current system in place for the three recommendations, hence although the recommendations were accepted it was not implicated that any actions would be taken. Therefore, taking this into account, approximately 57% of the recommendations were indicated as accepted and would be adopted.</td>
</tr>
<tr>
<td>Ministry of Agriculture and Forestry: Managing bio-security risks associated with high-risk sea containers</td>
<td>The MAF generally agreed with the recommendations of the audit. However, four (out of fifteen) of the recommendations may not necessarily be adopted, as implied by the specific responses like: “MAF needs greater</td>
</tr>
</tbody>
</table>
ability” and “has significant resource implications for MAF”. The four recommendations in particular were: recommendations 2, 5, 7 and 8. Taking this into account, approximately 73% of the recommendations were indicated as accepted and would be adopted.

<table>
<thead>
<tr>
<th>Department of Conservation: Planning for and managing publicly owned land</th>
<th>For the DOC, five out of nine recommendations (approximately 56%) received responses that indicates acceptance and plans for implementation. For the other four recommendations, the DOC disagreed with the recommendations for their own reasons, as depicted in Table 7. These four recommendations were: recommendations 2, 4, 7 and 8.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing New Zealand Corporation: Effectiveness of programmes to buy and lease properties for state housing</td>
<td>All six recommendations were accepted and adopted.</td>
</tr>
<tr>
<td>Ministry of Education: Management of the school property portfolio</td>
<td>The MOE responded that it generally accepted the audit recommendations. In particular, approximately 79% of the recommendations received responses that indicate acceptance and plans for implementation. However, five (out of twenty four) recommendations did not receive responses to indicate that any action was adopted, or any changes would be made to the existing systems and processes. The five recommendations were: recommendations 13, 19, 20, 21 and 24.</td>
</tr>
</tbody>
</table>
All five recommendations were accepted and adopted.

Table 10
Percentage of Recommendations Accepted and Implemented

<table>
<thead>
<tr>
<th>Audited Entity</th>
<th>% of recommendations accepted and adopted</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRST</td>
<td>57%</td>
</tr>
<tr>
<td>MAF</td>
<td>73%</td>
</tr>
<tr>
<td>DOC</td>
<td>56%</td>
</tr>
<tr>
<td>HNZC</td>
<td>100%</td>
</tr>
<tr>
<td>MOE</td>
<td>79%</td>
</tr>
<tr>
<td>MSD</td>
<td>100%</td>
</tr>
</tbody>
</table>

From the summary tables above:

- Two entities, the HNZC and the MSD, provided evidence that 100% of the audit recommendations were accepted and had a plan in place to be adopted.
- Another two entities, the FRST and the MAF, generally accepted the recommendations. Nonetheless, based on the official documents, it was difficult to determine whether all the recommendations would be adopted. In particular, only 57% of the recommendations for FRST and 73% of the recommendations for the MAF received responses which clearly indicated that the recommendations would be adopted.
- Another two entities, the DOC and the MOE, accepted most of the recommendations but did not agree on a small number of the recommendations. They stated clearly that the recommendations which in their view would not necessarily add value to their respective entities would not be adopted. Based on the responses in the official documents, the DOC accepted and would adopt 56% of the recommendations, whilst the MOE accepted and would adopt 79% of the recommendations.
- The acceptance and implementation rate for one entity, the Treasury, cannot be determined due to lack of evidence contained in the official documents.
Clearly there is a difference between the acceptance rate and the actual adoption of the audit recommendations, which will consequently affect the impact that performance audit has on the audited entity. In some cases, whilst the audited entity agrees with the audit finding, this may not necessarily imply that the entity will adopt the audit recommendation that follows. More evidence is needed to determine whether the recommendations have been adopted and consequently leave an impact on the auditee. In addition, some recommendations did not necessitate any particular action by the auditee. As an example, in the case of recommendations 1 and 3 made in the performance audit on the administration of grant programmes the OAG recommended that the FRST ensure its assessment processes in awarding grants meet the ministerial criterion. These recommendations by nature did not require any significant action by the FRST and in this sense did not leave any impact on how the FRST assess grant applications.

The total recommendation of all the audits in the sample is 68 recommendations. However, the above analysis only included 66 responses to the recommendations due to the lack of information on the response to a particular audit, which is the audit on the Treasury’s capability in recognising and responding to issues for Maori. This study found that out of the 66 recommendations, 51 recommendations were accepted, although as aforementioned, not all has evidence that they were adopted by the auditee. Table 11 provides the responses to the accepted recommendations found by this study, and Table 12 provides the reasons that the remaining 14 recommendations were not adopted.

<table>
<thead>
<tr>
<th>Response to accepted recommendations</th>
<th>No of recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation implemented</td>
<td>21</td>
</tr>
<tr>
<td>Review of systems and processes</td>
<td>14</td>
</tr>
<tr>
<td>Recommendation agreed, but no action specified</td>
<td>12</td>
</tr>
<tr>
<td>Incorporate recommendation into newly developed plan</td>
<td>3</td>
</tr>
<tr>
<td>Further consideration given</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
</tr>
</tbody>
</table>
Table 12

<table>
<thead>
<tr>
<th>Response to recommendations not adopted</th>
<th>No of recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reasonable systems and processes already in place</td>
<td>11</td>
</tr>
<tr>
<td>Audit recommendation difficult to implement in practice</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14</strong></td>
</tr>
</tbody>
</table>

This study found that most of the audit recommendations were accepted. Most of the accepted recommendations were also implemented or encouraged reviews of the current systems and processes. Therefore for the majority of the recommendations that were accepted and adopted, there was an apparent impact on the internal systems and processes of the audited entities. In particular, the recommendations triggered reviews and revisions of systems and processes that were in place, which consequently led to new processes being developed. For example, in the performance audit on MAF’s management of biosecurity risks associated with high risk sea containers, the MAF responded that it would make changes to its database system - CUSMOD, revise Container Health Import Standard and the General Transitional Facility Operational Standard, and develop a draft guideline to accommodate the recommendations made by the audit. The audit on MOE’s management of the school property portfolio also provides an example of such an impact on the audited entities. Implementation of a new Property Management Handbook, a major review of the management of school property, and amendment to the existing Asset Management Strategy were among the actions taken in response to the recommendations made by the audit. It is difficult however, to ascertain how much of this impact can actually be directly attributed to the performance audit. As discussed in Chapter 5, some audits were coincidental with plans to improve existing systems and processes. In the case of the MOE, the 2006 performance audit and Cabinet’s concerns raised in 2007/2008 led to an extensive review intended to improve asset and financial management, hence, it was not the audit alone that led to the changes made by the MOE in this area.
The findings in Chapter 5 on the recommendations disagreed by the auditees are similar to the findings in an earlier study by Hatherly and Parker (1988). Hatherly and Parker found that there were several reasons for auditees rejecting the audit recommendations, with the most cited being “the existing situation is reasonable given the circumstances which are outside the control of the auditee” (p.36). For this study, the reason most often cited for not adopting the audit recommendation was similar to that of Hatherly and Parker’s. Eleven of the total audit recommendations considered were not adopted because the auditees believed that the systems and processes in place were reasonable given the circumstances that they were in. An example of such a response is the response made by FRST to recommendation 1 of the audit on the administration of grant programmes. The FRST stated that:

“The criterion of ‘whether a project is likely to start sooner and complete earlier with the scheme’s support’ is effectively a yes/no question that is answered to the Foundation’s satisfaction through the approval process (noting that all potential grant recipients would answer “yes” anyway). Codifying this yes/no question can be done easily but probably won’t add a great deal of value to the GPSRD investment process so for these pragmatic reasons we don’t codify it in TechNZ.” (FRST, 2006, para. 2.10)

The second most cited reason for not adopting the audit recommendations was also similar to the findings by Hatherly and Parker (1988), whereby the auditees found that the recommendations were impractical or difficult to implement. The DOC’s response to recommendation 2 of the audit on the management of publicly owned land provided an example of such a response. The DOC stated:

“The Department developed, with Treasury collaboration, a draft strategic plan in 1998. At that stage work on the strategy was halted because Treasury could no longer put resources into the work. The Department subsequently reviewed the work. Relevant material was incorporated into the General Policies under the National Parks and Conservation Acts that were completed in April 2005, and after completing that process the Department concluded that any additional guidance would best be provided through other processes, such as business planning and broader strategic work. The Department does not, therefore, agree with the recommendation of the OAG.” (DOC, 2006a, p.3)

The study by Hatherly and Parker (1988) found five other reasons given by auditees for rejecting the audit recommendations. These included failure by auditors to recognise compensation controls, recommendations were contrary to efficiency and
effectiveness, and disputed size of potential savings. Nevertheless, the categorisation of these reasons relies heavily on the interpretation of the researcher. Therefore, whilst the appropriateness of the categorisation may be arguable, new categories can be expected to emerge from future studies on the reasons why auditees reject or chose not to adopt recommendations made in performance audits.

The low rate of disagreement to the audit recommendations does not imply that depending on the rate of the accepted recommendation is the best way to determine the impact of performance audit on the audited entity. Caution needs to be taken in assessing the impact of performance audit from the acceptance rate of the audit recommendations. Not only that the acceptance may not necessarily imply implementation of the recommendation, but acceptance rate may also provide a misleading representation of the impact of performance audit on the audited entity. In the ‘Follow-up Report on Performance Audits in 2007’ published by the OAG, the number of accepted recommendations was used as the main measure in following up progress since the audits (OAG, 2009a). However as discussed in Chapter 2, Hamburger (1989) and Morin (2001) warned against the dependency on the acceptance rate of the audit recommendations in determining the success of performance audit. Hamburger (1989, p.17) in particular, argued that “a 75% acceptance rate might not imply success, for example, if the rejected recommendations were the most important”. Morin (2001) echoed this argument by asserting that the number of recommendations should also not be the only measure to assess the influence or impact that performance audit has on the auditees. In particular she asserted that:

“Auditors General must realize that a mere follow up on the recommendations made previously is far from being enough to draw sound conclusions as to the success or the failure of auditors’ attempts to influence the management of the organisation audited.” (p.110)

Furthermore, although most recommendations were accepted and adopted by the auditees in this study, there is a further issue of how much improvement can be directly attributed to the audits. All the interviewees in this study believed that whilst the recommendations were undoubtedly useful, the issues would have been identified even if the audits have not taken place. In addition, some of the recommendations had
already been identified by the auditees, but were not yet implemented. The entity in Interview 3 for example, was already working on some of the recommendations prior to the audit. The recommendations relate to an integrated electronic system, and plans to improve the system were underway as part of a larger project, which will take years to implement. This means that the entity had already detected weaknesses with the current electronic system, and would have made changes even without the audit recommendations. Hence although these recommendations may be considered as accepted by the entity, it was not just the audit that triggered improvements to the electronic system. However, the interviewee in Interview 4 suggested that although his entity would have identified issues with their system even without the audit, the audit certainly had quickened the pace of improvement within the entity. The interviews also suggested that the audit recommendations were not the only manifestation of the impact of performance audit, which was supported by the analysis done on the data. This is further discussed in the following section.

### 6.2 Performance Improvement and Performance Accountability

According to Barzelay (1996), performance audit is targeted towards performance improvement and performance accountability. He described performance improvement as: “…achieving desired changes in efficiency and effectiveness (and other dimensions such as performance management capacity)” (p.40). Performance accountability on the other hand, was described as being concerned with: “…establishing and operating a proper relationship between government organisations and their principals so that the latter can enforce responsibility for performance on their agents” (ibid). He argued that these two goals are not synergistic, and hence trade-off may be inevitable for the audit bodies. Barzelay further hypothesised that “different audit bodies make different trade-offs”, depending on the institutional position of the audit bodies within the government (p.41). Where the audit body is part of the government technostructure, he stipulated that auditors consider themselves as participants of the management process and therefore are more inclined to advance the performance improvement goal. Independent audit bodies on the other hand, “feel less responsible for achieving outcome of performance improvement” and thus place “more practical importance upon the conceptual distinction between the functions of auditing and management” (ibid). If Barzelay’s
hypothesis is to be taken into consideration therefore, the New Zealand OAG can be expected to undertake the latter approach as it is independent of the executive government.

Although this study found that the OAG does advance the goal of performance improvement, it is however, difficult to determine the extent of emphasis given without comparison to the practices of other jurisdictions. There is also difficulty in determining what constitutes “performance improvement” when the term is very broad in nature. To maintain the relevance of the results to the practice of performance audit, this study therefore refers to prior literature of performance audit, despite this being very limited. In his study Barzelay (1996) mentioned the characteristics of performance within the performance audit framework. He wrote:

“Clear discussion of the meaning of “performance” requires specifying background mental models of governmental functioning. To suggest that behind the concept of performance auditing is a single image of governmental functioning risks gross oversimplification. In discussions of performance auditing, the most prevalent mental model appears to be a process-oriented scheme that downplays the internal structure and boundaries of organisations involved in delivering public programmes. Specifically, it characterises governmental functioning as a chain of production processes (through which inputs are transformed into outputs) and causal relationships (through which outputs exerts influence over outcomes). In terms of this abstract picture, economy means eliminating waste of inputs, efficiency means achieving an optimal process for transforming inputs to outputs, and effectiveness means achieving or improving outcomes through the delivery of the outputs (Gray,1993).” (Barzelay, 1996, p.20)

How do we identify performance improvement? Sloan (1996, p.147) suggested that:

“For those seeking performance improvement, the tracking of auditee performance improvement and changes in management practices represents the obvious way forward. In both cases some cooperation from the auditee is needed if the results are to be seen as credible. Recent improvements in agency performance reporting may make it easier to monitor performance trends, but such information will rarely be able to isolate the impact of performance audit from other performance improvement factors. So some auditee corroboration or interpretation of impact
numbers is needed. Similarly the motivation behind changes to management practices must be explored.”

Therefore, in assessing the impact of performance audit on performance improvement, much of the information should come from the auditees rather than the OAG. For this study, the information from auditees came in the form of official documents and interviews, which provided insights on how performance audit has impacted the audited entities, including the impact on performance improvement.

To some extent, this study is able to gauge from the auditee’s responses and interviews whether performance improvement resulted from the audits. As far as the response to the recommendations goes, there is evidence that performance audit resulted in changes to management practices which consequently brought about performance improvement to the audited entity. The analysis into the audit recommendations reveals that 51 of the 66 recommendations were accepted, and 21 recommendations were fully implemented. Where there is evidence that the recommendation was indeed implemented, there was an indication that performance audit brought changes to management practices. For example, the development and revision of a new strategy provided better direction and integration to the staff of the HNZC and MOE. In response to recommendation 3 of the audit on the effectiveness of programmes to buy and lease properties for state housing, the HNZC responded that the recommendation was accepted and implemented, and that a strategy was developed and made operational through an amendment to the existing Asset Management Strategy (HNZC, 2006). In addition, a Quality Management System process was developed and operational at the time of reporting (ibid). The attainment of performance improvement through performance audit was also confirmed by the interviewees. The interviewee in Interview 4 for example said that the performance audit on his entity fostered performance improvement through fine-tuning of the general management disciplines. In particular, the audit recommendations emphasised planning, people management and managing operational systems, which helped the entity in making better decisions and channelling shared goals to the staff. However, as Sloan pointed out above, it is difficult to isolate the improvement that can be directly attributed to the performance audit. In addition, such impacts are difficult to quantify because the information from the responses and interviews vary greatly in
terms of specifications. A survey or questionnaire to the auditees may be able to provide more dependable information if it is to be codified and quantified.

Additionally, there are three elements suggested by Danon (1996) which may indicate the attainment of performance improvement by performance audit. These are:

- “An explicit determination or willingness of public service managers to take an audit’s conclusions into account. An audit is a factor for improving performance only to the extent that it is either desired or accepted by the people running the department being audited. Otherwise, an audit’s conclusions will merely gather dust.

- A delicate balance between highlighting the failures of the department being audited and pointing to ways to improve. Audits can spur progress and help enhance performance if they produce balanced conclusions. An audit that simply elaborates negative findings may meet with wholesale rejection, while an auditor who is able to bring out strengths and areas of potential progress can give the audit organisation a basis on which to move forward.

- A stable political and institutional environment as it takes time to modernise public service and improve their performance.” (p.173)

Based on the reviews and analysis, all three elements were present in the sample of performance audits used in this study. Firstly, the four interviews with the auditees provided evidence of the attitude of auditees towards performance audit. In general, the auditees welcomed performance audit and considered the recommendations reflected what was best for their entities and its stakeholders. The auditees were found to be cooperative and willing to consider and accept recommendations which they deemed useful and would add value to their entities.

Secondly, the audit recommendations specified in Chapter 5 reflected that the OAG approached performance audit through highlighting ways to improve, instead of adopting a fault-finding approach. As Danon (1996) suggested, focusing on negative findings may lead to an adverse impact as auditees may be defensive towards such findings, which consequently may hinder improvement.

Thirdly, the historical review in Chapter 3 depicts that in 2006, the political and institutional environment surrounding performance audit was relatively stable, particularly with the increment in funding for OAG activities including performance audit, and Brady’s approach to performance audit which strengthened and developed the practice in the country. These instances provide
further evidence that performance audit indeed impacted the entities through improvements in performance.

Whilst there is evidence supporting the impact on performance improvement particularly from the official documents, the interviews provided evidence that the auditees generally felt that performance audit has greater impact on performance accountability. The importance of accountability has also often been cited in prior literature on performance audit. Glynn (1996) for example, provided a description of what constitutes accountability:

“Are there principles of accountability to help determine the role of external audit? This is a difficult question. Traditionally, public administrators and political scientists have related accountability to the separation of power from responsibility. In the public sector the term ‘acting in the public interest’ is often used when considering the question of responsibility for what and to whom. It is a phrase that underlines nearly all discussions on public policy, political action, social value and individual interest yet there is no agreement as to what the term means…Accountability therefore requires a clear definition of the objectives of a policy or programme and the development, as far as is practicable of measures of output, outcome and impact” (p.127)

In addition, Roth (1996) also states that:

“In the government environment, accountability is an important concept. Politicians are accountable to the citizens for the conduct of public affairs. The government is accountable to Parliament for the results it achieves with the resources entrusted to it. And public servants are accountable to the government for the results they achieve in the way in which they achieve them. In the past the emphasis has been on holding people to account for the processes used. In the current environment the emphasis is shifting to results. In other words, we need to think of accountability in terms of a demonstration of results achieved.” (p.256)

The description put forth by Roth (1996) and Barzelay (1996) on accountability therefore, suggested that accountability focuses on the relationships and responsibility lines within the public sector. To some extent, this focus was demonstrated in the audit recommendations where the recommendations emphasised the relationship and responsibility of the auditee to the stakeholders. Recommendations 4 and 5 in the audit on the effectiveness of programmes to buy and lease properties for state housing
(HNZC) for example, were directed at reporting by the HNZC to the Minister of Housing and Minister of Finance on regions of high risk (Auckland regions) and regions of high needs. The impact of performance audit on performance accountability however, was more apparent in the interviews carried out. In particular, interviewees in Interview 1, 2 and 3 succinctly communicated that they viewed performance audit as having a greater role of performance accountability in comparison to performance improvement. Generally, the auditees found that performance audit left limited impact in terms of how they manage their businesses, particularly since most audits only covered specific aspects of the businesses. In addition, some recommendations may not be adopted, depending on the considerations of the entities and their managers on the merits of the recommendations. For instance an interviewee in Interview 2 said that:

“I don’t think it (the audit) had a big influence on processes…internally we’ve reviewed the processes as well and I mean from delivery, internal-control perspective, aren’t too bad. I mean they are pretty vanilla products…it’s a pretty simple process. When you go to the recommendations, nothing came as a surprise and I can’t recall anything sticking out that has made a huge difference to the way the entity currently carries out its business today.”

Of the role played by performance audit viewed from the perspective of the entities, an interviewee from Interview 1 thought that:

“It is an essential part of running any business to actually get feedback from external people now and again on how you’re running your systems. So I don’t have a problem with that and the performance audit whilst somewhat different from the normal audit routine that we have at year end for example, it’s still a valid approach in terms of checking every now and again those things which are reasonably large components of our business.”

This was supported by the interviewee in Interview 3 who viewed performance audit as being paramount for assurance and accountability reasons:

“…they (the auditors) are not just doing the audit for the audit’s sake, there has to be some reason for it, and there was a reason for this and the results were important to us.”

Based on the interviews therefore, it was found that auditees generally viewed performance audit as having a greater role in providing assurance for accountability reasons to their entity, in comparison to performance improvement.
6.3 Additional Insights into Performance Audit

In addition to the impact of performance audit found as a result of the findings and analysis, this study also gained additional insights with regard to performance audit practice. In particular, this study captures a snapshot of performance audit practice in New Zealand in the early twenty first century. Although it is true that these findings cannot be generalised to other contexts due to sampling and the theoretical perspective taken, they do offer a deeper understanding of the current practice of performance audit in the country, as well as fresh insights that are different from that offered by prior literature. Such information is especially useful and valuable given the constructionist nature of performance audit. In particular, the historical review on performance audit in New Zealand revealed that the practice of performance audit is very much the product of prevailing concerns in the public sector, the government in office and their policies, the individual lead of the AGs, as well as the mandate that grants statutory authority to carry out the audits. The insights offered by this study therefore, are confined to the context of this study. In particular, the performance audit practice presented in this chapter reflects performance audits carried out under the auspices of the Public Audit Act 2001, with the OAG under the lead of Kevin Brady. The political and economic environment that enclosed the practice was characterised by a restructured government led by the Labour party. There are several fundamental aspects of performance audit found, which essentially captured the practice of performance audit in New Zealand.

6.3.1 Stakeholders of Performance Audit

Among the most striking insights gained by this study is the lack of attention given by the stakeholders of performance audit to the results of performance audit. This is ironic considering that these stakeholders are the most important audience because performance audit existed to serve as an assurance tool to these stakeholders. Figure 8 shows the performance audit participants framework, which includes the stakeholders; namely the Parliament (representing the public), the public and other stakeholders like the community, non-governmental organisations, political parties and oversight boards. Other stakeholders also involve people that interact directly with
auditees’ daily businesses, who were occasionally interviewed by the auditors, like contracting agents and business clients. Arrows in the figure represent interaction between the performance audit participants, with the solid arrows representing recurrent interaction between the participants found in the data of this study. The dashed arrows represent the interaction that was expected between the stakeholders, but evidence of such interaction was not found by this study. For example the solid arrow from the OAG towards the Parliament represents the OAG reporting to Parliament through tabling of the performance audit reports in Parliament, whilst the dashed arrow from the Parliament to the OAG represents the expected consideration by parliamentary members, which evidence was not found by this study.

There was no evidence found to demonstrate a response from Parliament to the tabling of the seven performance audit reports. As part of the data gathering process, I talked to a Parliamentary Librarian to identify any Select Committee consideration of the audits in the sample. I was told that the New Zealand Parliament produces three types of publication to the public which
are: the Hansard (parliamentary debates), Journal of the House of Representatives and Gazette (official parliamentary newspaper). Additionally, there are also three types of documents produced in regards to the Select Committees which are: evidence/submissions, advice, and select committee reports (The Parliament, 2010). My search into the Select Committee documents did not find any evidence of Select Committee consideration of the seven audits in the sample. The Select Committees to which the seven audits were presented are detailed in Appendix 2.

This finding is consistent with the findings of the Open Budget Questionnaire report (International Budget Partnership, 2007) on the lack of scrutiny given by Parliament to performance audit reports. The Open Budget Questionnaire reported that:

“The Auditor General also regularly presents various reports to the House, for example, general purpose reports that comment on a number of matters that warrant Parliament’s attention, and special purpose reports that contain the results of performance audit and inquiries. There is no obligation for FEC (Finance and Expenditure Committee) or Select Committees to examine these reports. On a number of occasions a Select Committee will request a briefing from the Controller and Auditor General on such a report, but this rarely leads to a Select Committee report to Parliament.” (p.93)

The lack of scrutiny resulted from the absence of a formal mechanism for the Parliament to consider the OAG reports, despite the OAG’s effort in “marketing” its reports to key stakeholders (OAG, 2000, p.12). In 2000, a subcommittee was formed by the Finance and Expenditure Committee (FEC) to consider reports by the OAG or to refer them to the relevant Select Committee (ibid). This subcommittee however, was not re-established by the FEC after the election in 2002 (OAG, 2003, p.74).

There are several potential means to enhance parliamentary scrutiny over OAG reports. For example, absence of a formal mechanism for Parliament to consider the OAG reports led the National Integrity Systems report to recommend New Zealand to consider an operation currently in place in Australia (Henderson, Cave and Petrie, 2003, p.21). The report recommended
that departments be required to report to Parliament every three months “on the status of actions to remedy deficiencies identified by the Auditor General, until the deficiency has been put right or it is otherwise agreed that the matter is closed” (ibid). In addition, New Zealand could also consider a system in Denmark whereby:

“Performance audit reports are first addressed to the audited organisation. If the results of the performance audit are material or of public interest the Auditor General also reports to the Public Accounts Committee. After the Committee has given its opinion the published report is forwarded to the Parliament and the responsible minister who has four months to prepare a response on what steps have been taken to improve the situation. The Auditor General then evaluates whether the answer is satisfactory before the Public Accounts Committee publishes its final report on the state accounts which is subsequently approved by the Parliament. This process is important in creating interest at the political level in the results of performance audit.” (OECD, 1996, p.83)

6.3.2 Justification for the Audits

The public sector is different from the private sector in that the range of stakeholders (i.e. taxpayers and citizens) is broader. Hence value for money is a crucial mantra in the public sector, and to achieve this several mechanisms are put in place, including performance audit. The audits in the sample were all driven by an underlying impetus, in most cases the significance of the subject audited, like the amount of public money involved/ managed by the public entity. As an example, the audit on the MOE was driven by the significant property portfolio under the management of the Ministry, which included “land, buildings (such as classrooms and gymnasiums), facilities (such as playgrounds), and infrastructure (such as boilers and drains)” (OAG, 2006e, p.5). As of 2006, the portfolio amounted to a capital value of $7,000 million, and in 2004/05, approximately $250 million was allocated for upgrading buildings and $62 million for maintenance (ibid). In some cases, the OAG carries out a series of audits in a particular area, for example the audit on FRST was part of “a series of annual performance audits of grant
programmes managed by public entities” (OAG, 2006b, p.2). The AG explained that this particular series was targeted “to provide assurance to Parliament that grant programmes are well administered, with public funding allocated as intended by the Government” (ibid).

In carrying out performance audits, the AG and his office ensured that the reasons for the audit were justified and communicated to the auditees, as well as the stakeholders. According to the interviewees, the reasons for the audits were usually communicated to them through an initial meeting between the auditors and auditees, which included a briefing from the auditors and reaching agreement on terms of reference between the two parties. For other stakeholders, the performance audit reports provided a vital platform for communicating the reasons for the audit, as well as for transparency in the audit processes and findings.

6.3.3 Performance Audit Methodologies

There is a common approach to the audits in the sample, in that the auditors have adopted consistent audit methodologies across the sample. It is interesting to note that the observation at client sites and systems-testing demonstrates the spirit of the grounded theory methodology. Generally, interviewees agree that the methodology adopted assisted the auditors in gaining sufficient understanding of the entities, although this may be limited in some areas due to the complex nature of the businesses of the public entities. The auditees were also comfortable with the idea of having an audit of their systems and processes, and generally had a welcoming attitude to such audits, as well as the audit approach. This attitude was contrary to the prevailing attitude towards performance audit found by the literature review in Chapter 3. During the early years of performance audit, public entities were not only reluctant to develop departmental objectives and performance indicators, but were also reluctant to accept advice from the OAG (Skene, 1985). The prevailing attitude at that time considered performance audit as irrelevant to their day to day operations, and there was no need for improvement in service performance and delivery (ibid). However, interviews with the auditees
provided evidence that the general attitude towards performance audit has changed. In particular, the interviewees perceived performance audits as no different from other types of external reviews, and generally welcome such reviews, which in their view are undertaken for the benefit of the entity, and ultimately the public.

Overall the auditees viewed the audit methodology as efficient, thorough and non-intrusive. They considered the auditors did what was necessary to better understand the business of the auditees, in order for them to study the findings and recommendations. Nonetheless, some auditees considered the auditors as not having a full understanding of their business. For example, the interviewee in Interview 4 thought that the audit on his entity would have been more useful if the auditors had had a better understanding of the technicalities and New Zealand practices. Despite this, generally the interviewees thought it was understandable given the level of expertise needed to understand the technicalities involved in some areas of their business, as well as the extent of legislation governing their entity, some of which was not part of the audit scope. Hence, although it could be expected that the resulting recommendations would be practical, this may not always be the case. According to the interviewees, some recommendations are not practical if wider contextual factors are taken into account, or other constraints outside the scope of the audit are taken into consideration.

6.3.4 Performance Audit Process

The OAG demonstrates a robust and transparent performance audit process. The high quality of work done by the OAG is not only apparent in performance audit reports, but is also confirmed by all the interviewees of this study. For example, one of the interviewees in Interview 2 recalled that in the initial stages of the audit of his entity, the auditors interacted with a number of the staff to gain sufficient understanding of the environment surrounding the entity and the rationale behind the processes involved. Hence the whole audit was deemed to have gone well with proficient auditors. This process also emphasised the rapport and relationship built by the OAG with the auditees.
As a matter of normal practice, after the completion of an audit, auditees are given the chance to comment on the draft report of the audit. In particular, auditees are given the chance to comment on the accuracy, balance and presentation of the reports. Comments sought include whether facts have been correctly stated, any material facts have been omitted or if there are any unfair inferences conveyed. Furthermore, the auditees are also asked if the draft is relevant, reasonable and practical. From the official documents gathered in the sample, this process proved to be valuable to this study as it reflected the relationship that the auditors and auditees shared. The professional relationship was especially highlighted in areas where auditees disagree with the audit findings, where both parties negotiated a way to conclude the disagreement to be presented in the performance audit report.

Following the comments, the AG will clear the final report after a final production edit has been undertaken. The final report will then be tabled in Parliament, and up until this point the document is confidential. The contents will not be publicly disclosed until the tabling of the report in Parliament. For all the seven performance audits in the sample, no further considerations by the stakeholders were found by the study. The interviewees also confirmed that there was no further response received from external stakeholders after the tabling of the report in Parliament.

This process may potentially affect the extent of impact of performance audit on the audited entities. In particular, Shand and Anand (1996, p.70) suggested that:

“...In some jurisdictions auditors place considerable importance on getting agreement from auditees to the audit findings before reporting. Although auditors maintain that audit findings are not “negotiable”, audit conclusions may be modified as part of this interactive process. While this may in some cases reduce audit impact it may be more likely to result in changes being implemented.”

This approach is in contrast with the fault-finding approach in which recommendations may not be implemented if auditees become defensive over
negative findings. A fault-finding approach may consequently hinder any improvement that could have been resulted from performance audit. Danon (1996, p.173) for example pointed out that:

“Audits can spur progress and help enhance performance if they produce balanced conclusions. An audit that simply elaborates negative findings may meet with wholesale rejection, while an auditor who is able to bring out strengths and areas of potential progress can give the audit organisation a basis on which to move forward.”

6.3.5 Rapport

The auditors maintain good rapport with the auditees throughout the whole audit process. Before an audit commences, terms of reference are agreed between the OAG and the auditee. Here the process of negotiation takes place if both parties disagree on the area and scope of the audit to be carried out. For example, one of the interviewees from Interview 1 pointed out that there were some areas that the OAG wanted to look at, but the entity thought would not necessarily add significant value in terms of any result. This process of negotiation can be viewed in two ways. It could be interpreted as a process of exerting influence on the public entities through performance audit, and it also can viewed as a process of building trust and rapport by the OAG. Based on the reputation that the OAG held, which was also confirmed by the interviewees, I am convinced that it is the latter.

In terms of the final report, there may remain some differences between the views held by the auditee and the OAG. The OAG is not obliged to reach an agreement with the auditee as it must maintain its independence. According to interviewees from Interview 1, these differences are usually the result of the different perspectives taken by both parties. The interviewees considered the legislative perspective taken by the auditors did not always align with the operational point of view taken by the management, hence the remaining differences in views. Interestingly most of the interviewees do not read the final published reports, hence were not sure of the differences remaining in views held by both parties. However, overall, the interviewees agreed that the
audits were done in a professional manner. The process of building rapport starts when the terms of reference are discussed and this is built up throughout the whole audit process, right through to the published report, to develop a professional, business-like relationship.

However, the literature suggested that there are risks to this professional relationship, and also ways to enhance the relationship. Barzelay (1996, p.45) for example noted that:

“To pursue the goal of performance improvement…requires a more intimate relation between auditors and managers than characterises by the historical pattern…If performance auditing is to advance its goals, role relationships between audit and management will have to undergo some adjustment. As part of this adjustment, the traditional role boundaries will likely blur in some spots where they had been clear.”

A blurred line in the role relationships may provide greater risk to independence. On the one hand there is a need for a balance between a cooperative relationship and the perception of audit independence (p.46), however on the other hand the independence may cause executives and professionals to feel less responsible to achieve outcomes as the recommendations may hinder creativity and flexibility (Roth, 1996, p.258). In addition, there is also a risk of a mimicry, which stems from the ‘implicit feedback theory’. When auditees mimicry, it means that the recommendations are implemented for the sake of appearance, instead of for the interest of their organisations. Leeuw (1996, p.111) explained that the feedback theory flows according to the list below:

- “feedback from the auditor to the auditee is needed when it is shown that the standards or goals are not (or inefficiently) reached
- the auditee will listen to the feedback
- he subsequently will take follow-up actions
- which will lead to the realisation of the formal goals; while
- this will not lead to unintended and undesired side effects”

He further wrote that “the theory assumes that the auditee refrains from strategic actions (merely to make performance look good), elicited by the fact that he is familiar with the standards or measurements auditors apply or with the methodology used” (ibid). Leeuw suggested that the risk of “mimicyring”
also applies to the auditors where procedures, rules and standards which will stimulate a response behaviour that may not necessarily result in performance improvement. He then suggested “a more open dialogue focused on less procedures, rules and standards” to ensure that performance audit does indeed result in performance improvement (ibid).

6.3.6 Auditor’s Expertise

Traditionally auditors have an accounting background to fit the technical demands of financial audits. With performance audit however, the skills involved are different from conventional financial or compliance audit, thus having an accounting background is not necessarily a requirement. Furthermore, the issues audited vary widely in terms of the expertise required. Hence it was not surprising to find that in the early years of performance audit, auditors faced challenges in this area. Green and Singleton (2009, p.117) wrote that:

“Some of the audited entities, as well as some members of the Audit Office, questioned whether auditors, trained in accountancy, were qualified to judge the effectiveness of many of their activities... External consultants were often hired to help with value for money and special audits, compensating the dearth of non-accountancy expertise in the Office. It was more economical to employ consultants temporarily than to appoint in-house computer scientists, engineers, medical experts or economists, especially in a small country where human capital was scarce.”

The findings of this study suggested that not only the attitude towards auditors’ expertise is changing, but also performance auditor’s background is currently multidisciplinary. In terms of expertise, the interviewees generally had high regard for the auditors’ expertise and set reasonable expectations for the technical expertise and industry know-how demonstrated by the auditors. One of the interviewees in Interview 2 for example, thought that the auditors were proficient, smart, experienced and professional. Another interviewee from Interview 1 on the other hand suggested that: “…auditors by their nature are never going to know
enough about any business because it’s about taking a sample approach. So by definition, the expertise is going to be with the organisation that’s actually being looked at rather than from the auditor’s perspective”. However, the interviewee in interview 4 thought that feedback from the auditors would have been more useful to the entity if the auditors brought in external expertise to provide support over technical areas of the audit.

In terms of the multidisciplinary background of the auditors, the interviewee in Interview 3 commented: “I was surprised actually because the two auditors weren’t accountants. They had degrees in other disciplines.” The interviewee thought that was ideal for a performance audit team, and supported the view that the performance auditors were proficient in their work. He also added: “they probably had better knowledge of what the (entity) did after they did the review than prior to it”.

Therefore, based on the findings and analysis, there are several valuable insights gained with regard to the practice of performance audit. In particular, this study highlights the issues with the lack of attention on the results of performance audit given by the stakeholders, justification made by the AG for the audits, and the performance audit methodologies and processes adopted by the OAG. In addition, this study also discusses rapport between the auditees and auditors, and also the auditors’ expertise.

**Chapter Conclusion**

This chapter looks at the impact of performance audit on the audited entity as the manifestation of the audit recommendations, as well as the attainment of goals of performance audit. It was found that 52 of the 66 audit recommendations considered in this study were accepted. A majority of the accepted recommendations were either implemented, or triggered a review on the current systems and processes. It appears that to this extent the audit recommendations impacted the internal systems and processes of the audited entities, which included new strategies, documentation and database systems. The remaining 14 recommendations were not accepted and not adopted on the basis that there was already a reasonable system in place given the
circumstances faced by the entities or that the recommendations were difficult to implement in practice. The reasons for accepting and adopting the audit recommendations therefore, appeared to be based on the assessment of practicality and the value that the recommendations would bring to the entity. However, the analysis into the rate of acceptance of the audit recommendations may not provide the full story, as cautioned by Hamburger (1989) and Morin (2001). This was proven to be a valid argument when a deeper assessment into the impact of performance audit revealed that there were other impacts that may not be apparent through the acceptance rate of the audit recommendations. In particular, it was found that auditees were also impacted through the role of performance audit with performance accountability and performance improvement.

Based on the interviews with the auditees, this study found that the entities generally experience both performance improvement and performance accountability as a result of performance audit. According to Sloan (1996), among the ways to detect performance improvement is to bring the changes in management practices, which can be found particularly when the audit recommendations were accepted and adopted. The interviewee of Interview 4 confirmed that his entity experienced performance improvement where the audit recommendations were accepted. In particular, the audit has helped his entity with the general management discipline and general systems, which made some aspects of their business more efficient and hence promoted improvement in performance. However, interviewees in the other interviews did not share this view as the audits on their entities left very limited impact in the way that they carry out their businesses. The interviewees stressed rather that, there was greater impact on performance accountability. Performance audit literature describes performance accountability as having a focus on the relationships and responsibility lines within the public sector. The impact of performance accountability in this sense was the feedback and assurance that performance audit provided to the entities as well as the stakeholders. In particular, the auditees considered that performance audit provided very limited help in terms of performance improvement in their entities, but is still a necessary tool within the performance accountability framework of the public sector. The results of performance audits therefore, left greater impact on the entities in terms of performance accountability compared to performance improvement.
Earlier studies on the impact of performance audit found that performance audit left no significant impact on the auditees, or was not very successful in influencing the auditees (Hatherly and Parker, 1988; Shand and Anand, 1996; Morin, 2001). This study on the other hand found that the accepted recommendations do have an impact on the managerial practices of the entities, although the extent of this impact warrants further study. However, according to the majority of the auditees interviewed, the impact that performance audit has on performance improvement is less significant than the impact on performance accountability. Hence whilst the rate of accepted audit recommendations appeared to be high, the auditees generally perceived performance audit as having a greater role for performance accountability, rather than significantly facilitating performance improvement in their entities.

In addition to answering the research question, this chapter also discusses insights gained from the findings and analysis on the practice of performance audit. In particular, this study highlighted the lack of attention given by the stakeholders of performance audit to the results of the audits. This issue mainly results from the absence of a formal mechanism for the stakeholders to consider the OAG reports, and it has been suggested that a similar system to that of Australia or Denmark be considered to address this issue. Additional insights were also gained on how the OAG carried out the audits in practice, particularly in terms of justification to carry out the audits, and also the methodologies and processes adopted in carrying out the audits. There were also insights into the rapport and professional relationship shared by the auditees and auditors, as well as a discussion on the subject of auditors’ expertise. These insights are valuable not only because of the constructionist nature of performance audit, but also because they are different from insights offered by prior literature.
Chapter Seven – Conclusion

Chapter seven concludes this research. It reviews briefly the main findings of this research. The chapter also discusses the limitations of the study and opportunities for future research on performance audit.

“Improved performance and enhanced accountability in government are possible. Indeed, they are essential.” Roth, 1996, p. 257

Chapter Introduction

Performance auditing emerged amidst accountability concerns in the public sector, and was introduced to respond to rising public demands that followed such concerns. Initially, the introduction did not fare favourably with politicians, other government control agencies, and the audited entities. New Zealand has even seen some serious efforts to halt the AG from further developing performance audit. Nevertheless, performance audit continued to strengthen its presence due to its vital role in providing assurance to the public sector in matters pertaining to economy, efficiency and effectiveness. For nearly half a century performance audit has evolved in New Zealand, yet there exists a wide gap between the knowledge in the philosophy and practice of performance audit. This study therefore, seeks to improve the knowledge on performance audit practice by studying the impact of performance audit on seven entities audited in 2006.

7.1 Findings

Applying a methodology adapted from grounded theory, this study found that performance audit impacted the seven audited entities through the manifestation of the adopted audit recommendations and the attainment of performance audit goals. Overall, most of the audit recommendations were accepted and implemented by the audited entities, and the implementation generally left an impact on the internal systems and processes of the audited entities. Such impact included changes on the internal management systems, database systems, and triggered reviews of relevant standards and guidelines. The changes brought about by the implementation of audit
recommendations were translated into performance improvement, whereby the auditees experience changes particularly in the area of management practices, as confirmed by interviewee in interview 4. Nevertheless, other interviewees of this study suggested that based on their experience, performance audit provided greater help to performance accountability in comparison to performance improvement. Whilst they viewed performance audit recommendations as being useful, they did not think performance audit left a huge impact on their performance. Rather, the auditees thought that performance audit plays a more significant role in providing assurance and feedback to auditees, and most importantly, to the stakeholders. In particular, the interviewees viewed the audits as a review on their performance, which consequently provided assurance to the public and Parliament. Hence, in their view, performance audit has a greater impact on performance accountability as it played a greater role over the accountability arrangements of their entities.

Studying the impact of performance audit also provided additional insights into practice. Firstly, despite the important role that performance audit plays in the accountability and performance framework in the public sector, this study found that stakeholders are not giving the audits the attention they warrant. It has been suggested that New Zealand considers a formal mechanism for parliamentary members to consider reports by the AG including performance audit reports, similar to the systems currently in place in Australia and Denmark (Henderson et al, 2003; OECD, 1996). Secondly, this study offered insights into the justification provided by the AGs for the audits. All the audits in the sample were driven by an underlying impetus, which were found to be well communicated to both the auditees and other stakeholders. Thirdly, the rapport documented in the official documents and interviews highlighted the professional relationship shared by the auditees and the auditors. Professionalism was carried out throughout the audit process, including in dealing with disagreements and differences between the auditees and the auditors. The fourth insight gained concerns the expertise demonstrated by the auditors. Performance auditors generally have multidisciplinary background, and their expertise was widely accepted among the auditees. However, where beneficial, it is worth considering bringing in external expertise to provide more insightful feedback to the auditees, hence enhancing the impact of performance audit on the auditees. Additionally, this study also documented the general performance audit process and
methodology adopted by the OAG. The OAG demonstrated consistency in the process and methodology of performance audit, which the auditees found satisfactory. Overall, these insights offered greater understanding of the practice of performance audit in New Zealand.

7.2 Future Research and Practice

There are substantial opportunities for future research on performance audit. Given the nature of performance audit presented in this study, there is much to be learnt regarding performance audit as a social construct of a particular context. Performance audit practice in other countries for example, provides a fruitful and substantial area for research. Comparative studies can also be undertaken to study the differences of performance audit and its practice across different jurisdictions. In addition, the application of grounded theory could be extended to theory building by undertaking research grounded in practice. This could be done for example, with the researcher studying performance audit practice by being at the sites of the research subjects for deeper understanding in this area. It is important that academics realise these opportunities to narrow the knowledge gap that currently exist between practice and the literature. The findings of this study offer a platform for such opportunities to be explored and discovered in the near future.

There are also opportunities for the stakeholders of performance audit to make the best use of the activity. This is an area worth exploring, considering the amount of public resources spent on such audits. This study found that performance audit plays a role in performance improvement of the audited entities, and plays even a greater role for performance accountability of these entities. Hence there is a good reason for the stakeholders, particularly the Select Committees to give greater consideration to performance audit in terms of the findings, recommendations and actions taken by the auditees. As for the OAG, it is important that it maintains the balance between its relationship with the auditees and its independence. For example, it is worth considering bringing in external expertise for audits involving complex issues to assist the auditors in understanding the technicalities and providing more useful feedback. These suggested considerations have the potential to enhance the impact that performance audit has on the audited entities.
7.3 Limitations of Study

This study however, is subject to several limitations. Firstly, this study is interpretive in nature, hence the findings and results presented were largely drawn from my interpretations. I based my interpretations on the data available, and made the data as transparent as possible in this thesis for the interpretations to be credible. However, another researcher with a different background analysing similar data may have different interpretations of the data. The second limitation is that this study is limited to the context that it is in, and the results are limited to the sample used. In addition, it was also confined within a relatively short time period. A longer time frame may allow more data to be gathered therefore enhancing the knowledge that could be gained.

Chapter Conclusion: Contributions of Study

This study has provided valuable insights not offered by prior literature. From the sample of the seven performance audits, this study provided evidence that generally there is a high level of acceptance of performance audit recommendations. Where the audit recommendations were not adopted, the auditees quoted that there was either already reasonable systems or processes in place, or that the audit recommendations were not practical to be implemented. The responses by the auditees to the recommendations also suggested that the recommendations were implemented, or not implemented, based on the assessment of practicality in the interest of the entity as well as the stakeholders. Additionally, this study also found that in general the auditees viewed performance audit as having greater impact on the accountability arrangements, rather than leaving significant impact on performance. Performance audit therefore, plays a vital role in the accountability framework of the public sector, as intended by the early advocators of performance audit. Based on these findings, this study has contributed to the current literature on performance audit by providing better understanding of performance audit practice in New Zealand.
REFERENCES

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148


APPENDICES

Appendix 1

Performance Audits Carried Out in 2006

<table>
<thead>
<tr>
<th>No</th>
<th>Performance Audit</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>The Treasury: Capability to recognise and respond to issues for Maori</td>
</tr>
<tr>
<td>2</td>
<td>Progress with priorities for health information management and information technology</td>
</tr>
<tr>
<td>3</td>
<td>Management of heritage collections in local museums and art galleries</td>
</tr>
<tr>
<td>4</td>
<td>Management of the West Coast Economic Development Funding Package</td>
</tr>
<tr>
<td>5</td>
<td>Foundation for Research, Science and Technology: Administration of grant programmes</td>
</tr>
<tr>
<td>6</td>
<td>Ministry of Agriculture and Forestry: Managing bio-security risks associated with high-risk sea containers</td>
</tr>
<tr>
<td>7</td>
<td>Department of Conservation: Planning for and managing publicly owned land</td>
</tr>
<tr>
<td>8</td>
<td>Local authority codes of conduct</td>
</tr>
<tr>
<td>9</td>
<td>Housing NZ Corporation: Effectiveness of programmes to buy and lease properties for state housing</td>
</tr>
<tr>
<td>10</td>
<td>Ministry of Education: Management of the school property portfolio</td>
</tr>
<tr>
<td>11</td>
<td>Inland Revenue Department: Performance of taxpayer audit – follow up audit</td>
</tr>
<tr>
<td>12</td>
<td>Allocation of the 2002-05 Health Funding Package</td>
</tr>
<tr>
<td>13</td>
<td>Residential rates postponement</td>
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<tr>
<td>14</td>
<td>Ministry of Social Development: Performance of the contract centre for Work and Income</td>
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**Appendix 2**

**Performance Audit Reports and Relevant Select Committees**

<table>
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<tr>
<th>No</th>
<th>Performance Audit</th>
<th>Select Committee</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>The Treasury: Capability to recognise and respond to issues for Maori</td>
<td>Maori Affairs</td>
</tr>
<tr>
<td>2</td>
<td>Department of Conservation: Planning for and managing publicly owned land</td>
<td>Local Government and Environment</td>
</tr>
<tr>
<td>3</td>
<td>Foundation for Research, Science and Technology: Administration of grant programmes</td>
<td>Education and Science</td>
</tr>
<tr>
<td>4</td>
<td>Ministry of Education: Management of the school property portfolio</td>
<td>Education and Science</td>
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<tr>
<td>5</td>
<td>Housing NZ Corporation: Effectiveness of programmes to buy and lease properties for state housing</td>
<td>Social Services</td>
</tr>
<tr>
<td>6</td>
<td>Ministry of Social Development: Performance of the contract centre for Work and Income</td>
<td>Social Services</td>
</tr>
<tr>
<td>7</td>
<td>Ministry of Agriculture and Forestry: Managing biosecurity risks associated with high-risk sea containers</td>
<td>Primary Production</td>
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