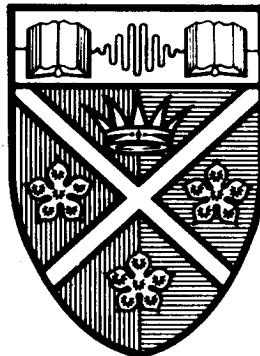


# STRATHCLYDE PAPERS ON GOVERNMENT AND POLITICS



*VALUE FOR MONEY AND EFFECTIVENESS AUDITING  
IN THE PUBLIC SECTOR: A SYMPOSIUM*

*Edited by*  
*J. J. Richardson*

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VALUE FOR MONEY AND EFFECTIVENESS AUDITING

IN THE PUBLIC SECTOR. A SYMPOSIUM

Papers given at a Conference held at  
The Business School, University of Strathclyde, Glasgow.

29 September 1983

Edited by Professor J. J. Richardson  
Department of Politics, University of Strathclyde

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## Preface

Professor J. J. Richardson, Department of Politics, University of Strathclyde.

The fact that this symposium was held is a reflection of the growing interest in value for money (VFM) and effectiveness auditing in both the public and private sectors. Indeed it is one of the few growth industries in Britain and it has been said that the 1980s will be seen as the decade of the auditors. We may be seeing the development of a new profession, long familiar in the USA, of policy evaluation.

Before considering the opportunities and problems in developing VFM and effectiveness auditing, it might be useful to introduce what I hope would be reasonably acceptable definitions of various types of audit. These definitions are contained in the Government's Green Paper, March 1980, on the Role of the Comptroller and Auditor General.

## Definitions

Financial and Regularity Audit: (a) a financial audit to ensure that systems of accounting and financial control are efficient and operating properly and that financial transactions have been correctly authorised and accounted for; (b) a regularity audit which verifies that expenditure has been incurred on approved services and in accordance with statutory and other regulations and authorities governing them.

Value for Money Audit: (c) an examination of economy and efficiency, to bring to light examples of wasteful, extravagant or unrewarding expenditure, failure to maximise receipts or financial arrangements detrimental to the Exchequer, and weakness leading to them.

Effectiveness Audit: (d) an examination to assess whether programmes or projects undertaken to meet established policy goals or objectives have met those aims.

Source Cmnd 7845, p. 7, March, 1980.

Essentially, the main difference between VFM and effectiveness auditing is that VFM is primarily concerned with economy and avoiding waste, whereas effectiveness auditing is primarily concerned with the question of the achievement of the objectives and goals of a given policy, programme, or activity. The clearest distinction between effectiveness and efficiency has, however, probably been provided by John Garrett MP in a memorandum to the PAC in April 1980, in which he discussed the three main types of audit. Using the example of a spending programme to relieve family poverty, he saw financial audit as asking whether money was spent on the programme as authorised by Parliament; efficiency audit asks what were the administrative costs per family; effectiveness audit asks how many, or if any, families had their poverty reduced as a result of the programme. (1) It is clear that effectiveness audits are especially difficult to design and execute. Nevertheless, we can expect increasing demands for both VFM and for the more fundamental questioning and analysis via effectiveness audits in the public sector, as a result of the resource squeeze. Moreover, resource squeeze and organisational survival are as much the concern of the private sector as they are of the public sector in today's difficult economic climate. As a result, it should be possible for the public and private sectors to assist each other in the development of appropriate auditing techniques.

It is of great importance, however, that VFM and effectiveness auditing should not be perceived as solely cost cutting techniques. The evaluator must not be seen as exclusively an axeman, although it is perfectly reasonable for organisations to develop more rational processes for distinguishing between essential functions and those functions which, though perfectly desirable, are less essential to the main objectives of the organisation or programme. Both VFM and effectiveness audits should be an integral part of any dynamic organisation, whether budgets are being cut or expanded i.e. all organisations should be concerned with whether or not they are achieving their objectives and with the formulation of clearer objectives.

It is, of course, important to be both cautious and realistic in terms of the expectations of VFM and effectiveness studies. It is quite wrong to expect "slam bang" results, and wise to recognise that the evaluation process is uncomfortable or disturbing. The process of analysing effectiveness is a political process and the evaluator is likely to be caught up in organisational politics. He therefore needs a degree of political sensitivity if his findings are to have any practical impact. He will also find it difficult to develop adequate measures of effectiveness.

What, then, can we expect from VFM and effectiveness audits? Cynics might say that the evaluation process is mere ritual - designed to re-assure the public (and elected politicians) that public bodies are in some practical sense accountable. There is no doubt, however,

that the evaluation process is a very useful means of increasing organisational learning. In this sense it is the process of evaluation which is of central importance - the fact that fundamental questions are asked - rather than the actual findings of that process.

Our four contributors each bring a different perspective to the problem. Professor Maurice Garner, a former civil servant in the Department of Trade and Industry, discusses what he terms "managerial audit", in the nationalised industries and suggests that it is an essential tool of good management, as well as being demanded by the public interest. James Troman, Controller of Audit for the Accounts Commission in Scotland, describes the development of audit arrangements for Scottish local authorities, and also emphasises the degree to which auditing is an aid to good management, rather than a substitute for it. John Fielden, of Peat, Marwick, Mitchell & Co., presents a private consultant's view of VFM and draws attention to the need for a clearer definition of the types of VFM reviews there are. Finally Inger Ryden, of the National Audit Bureau in Sweden, provides the benefit of the Swedish experience of the development of effectiveness auditing. Our Swedish colleagues have over fifteen years experience developing effectiveness auditing and are now recognised as one of the most advanced nations in this particular field. (2).

NOTES

1. Quoted in J. J. Richardson "Programme Evaluation in Britain and Sweden", Parliamentary Affairs, Vol. XXXV, Number 2, Spring 1982, pp. 160-180.
2. For a British view of the Swedish experience see J. J. Richardson and Britt-Marie Kindblad, Programme Evaluation in Sweden : The Changing Policy Style, Strathclyde Papers on Government and Politics, No. 8, 1983, £3 from Department of Politics, University of Strathclyde, 16 Richmond Street, GLASGOW G1 1XQ.

MANAGERIAL AUDIT IN THE NATIONALISED INDUSTRIES: MORE OR LESS?

by

Maurice R. Garner

(Visiting Professor of Government, London School of  
Economics and Political Science).

On the assumption that the average remuneration of those present today is around £20,000 per annum, that the oncosts of your appointments are 100 per cent of salaries, and that you work 200 days per annum, someone or some public authority has paid about £250 for your presence here today. As there are only four of us making specific expositions in these proceedings, it follows that, if your sponsors are to get value for money, I, like each of the other speakers, am required to broadcast pearls of wisdom worth to them in the aggregate about £6,000. Clearly, it is a tall order. Nevertheless, a calculation like this is a salutary discipline as it settles precisely what the first objective of my talk should be - namely, to impart information and ideas worth at least £6,000, ideally in the eyes of your sponsors but, if not solely in the eyes of your sponsors, in their eyes and those of the public who stand behind your sponsors. It also settles the direction and scope of my talk. What I talk about should be of potential value to you in your employment and not matters that happen to interest me. This means that it would be wrong to devote much time to such issues as whether efficiency auditing of nationalised industries should be done by the Comptroller and Auditor General (C&AG) or the Monopolies and Mergers Commission

(MMC) and whether it is right that the Commission should be debarred from questioning an industry's financial objective. These are important issues but they are not likely to be of great practical importance to you in your work. Reflecting, therefore, on the point of intersection between your requirements and my capabilities, and recognising that unlike the panel in "Gardeners' Question Time", I have no repertory of "topical tips" to hand out which I could value at £2,000 a time, I consider that the greatest value will come from my talk if I can persuade you to regard efficiency and effectiveness auditing as an essential part of management and government control and therefore as a process to be viewed positively and co-operatively and not negatively, suspiciously, resentfully. If I can persuade each one of you to adopt this positive attitude in relation to your own industry and to proselytise this way of thinking amongst your colleagues, whether superiors or subordinates, I shall have achieved my objective and your sponsors will, in my opinion, have received value for money, although, as I shall shortly explain, they may not immediately agree and I may have to bring into the reckoning the benefit to the public generally.

I shall pursue this objective by drawing on circumstances and experience in the nationalised industries. May I, therefore, first repudiate any suggestion that I regard the nationalised industries as a class, either necessarily or in practice, as less efficient than private industry? In the light of experience both in Britain and abroad, it is plain that public enterprises can achieve high levels of efficiency, whether in competition with private enterprises or as

monopolies. As examples, I would cite Lufthansa in Germany, Elf-Aquitaine in France, the South African Railways and Harbours Board, the British Gas Corporation, and the Televerket in Sweden. It is no less plain that many private enterprises do not achieve high levels of efficiency. British Leyland did not come into the public sector because it was one of "the commanding heights of the economy" but because it was bust. The same was true of the French Railways and the Austrian and Italian banks that were nationalised in the Thirties and it was true, more recently, of, for example, the shipyards in Sweden and Amtrak in the U.S.A. However, if the facts compel us to recognise that public enterprises can be efficient by conventional standards, facts also compel us to recognise that a number of public enterprises - I would say, a disturbing number of public enterprises - seem not to be efficient, this being particularly noticeable when, in the case of some of their activities, they happen to be in direct competition with firms in the private sector, as Richard Pryke has demonstrated in his book entitled, "The Nationalised Industries". (1) Confirmation of the occurrence of this relative inefficiency, as well as incidental evidence of the value of management audit - the term I shall use henceforward to cover both efficiency and effectiveness audits - will be found in the MMC's report on the London Electricity Board's domestic electrical appliance retailing business. (2) The case for management audit is thus not founded on the argument that nationalised industries are invariably inefficient but on the consideration, *inter alia*, that inefficiency is always a possibility.

### The Need for a change of Attitude in the Nationalised Industries.

Some of you may be wondering why I can think persuading you to adopt a positive attitude towards managerial audit can be worth £6,000. (In fact, I think it worth a lot more.) The reason is: history. From the earliest years of nationalisation until this very year, 1983, the public record of the Boards of the nationalised industries is one of a consistently negative attitude towards proposals for systematic managerial audit by an independent institution. They opposed Herbert Morrison's proposals in 1948 to 1950; they opposed proposals made to the Select Committee on Nationalised Industries in 1967; it may be inferred that they opposed proposals from the National Economic Development Office in 1976, given the milk and water character of the reference to auditing in the Office's Report; and this year they opposed the proposals in the St. John-Stevas Bill. (3) To the best of my knowledge, there has been only one nationalised industry chairman who has expressed public support for managerial audit - Mr. Glyn England of the Central Electricity Generating Board (4) - and we all know what happened to him. The record of the nationalised industries is thus one of a distinct coolness towards managerial audit. From personal experience I can say that this coolness was not confined to Chairmen and Board Members but was equally observable amongst chief officers. I would imagine that from them it permeated downwards to all in the nationalised industries who bothered to think about such matters. It is, therefore, fair to assume that management in the nationalised industries is cool towards managerial audit. I intend to show why

this attitude should change.

Basically, there are two reasons for such a change:-

- i) because management audit is an indispensable tool of good management;
- ii) because the public interest demands it.

#### The Need for Management Audit.

Management audit is an indispensable tool of good management because management cannot hope to be perfect. This is true of small enterprises; it is even more true of large enterprises such as the major nationalised industries. In their cases, as Galbraith explains in "The New Industrial State", decision-taking is a complex process that puts top management to a substantial degree into the hands of subordinate management to which he gives the name, "the Technostructure". As he puts it: "in modern industry a large number of decisions, and all that are important, draw on information possessed by more than one man. Typically they draw on the specialized scientific and technical knowledge, the accumulated information and experience and the artistic or intuitive sense of many persons. And this is guided by further information which is assembled, analysed and interpreted by professionals using highly technical equipment. The final decision will be informed only as it draws systematically on all those whose information is relevant." All this information has to be extracted, tested, and brought together, normally through a hierarchy of groups incorporating the

various specialisations, so that "decision in the modern business enterprise is the product not of individuals but of groups." As Galbraith concludes:-

"When power is exercised by a group, not only does it pass into the organisation but it passes irrevocably. If an individual has taken a decision he can be called before another individual who is his superior in the hierarchy, his information can be examined and his decision reversed by the greater wisdom or experience of the superior. But if the decision required the combined information of a group, it cannot be safely reversed by an individual. He will have to get the judgement of other specialists. This returns the power once more to organization. No one should insist, in these matters, on pure cases. There will often be instances when an individual has the knowledge to modify or change the finding of a group. But the broad rule holds: If a decision requires the specialized knowledge of a group of men, it is subject to safe review only by the similar knowledge of a similar group. Group decision, unless acted upon by another group, tends to be absolute." (5)

However perceptive, open-minded, and critical top management may consider itself to be, it is thus unlikely that it will have the knowledge or the time to maintain a continuing, effective check on the counsel and recommendations flowing in from its many advisers over the wide range of its responsibilities. It thus needs the help that can come from an independent, authoritative, professionally, competent scrutiny of the quality of the advice that is being tendered to it - which means a check on the advisers' technical knowledge and capacity, on their assumptions and values, and on the organisational structure devised to bring matters to the point of final decision.

Top management, however, would not wish to place all the responsibility for an enterprise's performance on the shoulders of its

technostructure. Its own performance may be crucial. Its advisers may have expertly and conscientiously presented the relevant options but top management may then have either decided wrongly or failed to decide at all. Its decisions may have been affected by unrecognised assumptions, priorities, and prejudices or by the strength of particular personalities. Juvenal reminds us that the advice to "know thyself" came from the Gods themselves; but men in high places cannot easily appraise themselves and they are not likely to get a candid assessment from their subordinates, except by accident. Top management, therefore, would benefit from an independent, authoritative, and professionally competent review of its own performance. How do I know it would benefit? One answer again is: history. The National Coal Board's investment programme of the Fifties was seen by the Sixties to be studded with disasters, Abernant and Cynheidre in Wales, Glenrothes in Scotland, Bevercotes in England - incidentally, it is disturbing to an old man like me with a long memory to see that underground water is again affecting operations, this time at the new pit at Selby; it was underground water that closed Bevercotes to commercial production before it could be started. The Central Electricity Generating Board's decision around 1960, before a prototype had been constructed and proved, to standardise on 500 MW sets contributed to the general failure of the power station programme in the Sixties, a failure which was only finally put right in the Seventies. The joint decision in 1965 of the Atomic Energy Authority and the Generating Board to prefer the AGR to the LWR has resulted in a situation in which Britain, despite all the costs incurred and the delays endured, is without an internationally

competitive nuclear generating system and without any experience in constructing the LWR. The British Steel Corporation's decision in the early Seventies to base its development programme on a capacity of 36 million tons has been shown by events to have been a monumental miscalculation. (6) It will be appreciated that what was in issue in these decisions were not the costs incurred by commonplace operational inefficiencies, such as the holding of excessive stocks of materials or the low rate of utilisation of motor transport, but tens and hundreds of millions of pounds, perhaps even thousands of millions of pounds in the case of nuclear generation and steel. But it is not only from history that one can see that management will benefit from independent reviews of its performance. We have the various reviews made by different bodies since 1980, notably the reports of the MMC, but also the Serpell Report on British Railways and Deloitte's report on British Gas. Time does not allow me to quote from these reports at all extensively but I shall cite two passages from the Commission's reports to show that there are occasions when top management has something to learn from an independent review of its performance. The first passage is from the Commission's report on the Inner London Post:-

12.8 Our detailed conclusions about the various aspects of the operations and management of the letter post in Inner London have been set out in previous chapters. In the light of these conclusions we find that there has been a clear decline in the quality of the service from the standards set by the Post Office and reasonably expected by the public to be maintained. This decline impedes both business and social communications not only in Inner London but also over a much wider area, and we therefore consider that it operates against the public interest.

12.9 In part this deterioration of service is due to causes, such as bad weather in early 1979 and the performance of British Rail, which are beyond the Post Office's control. In greater part it is due to the state of industrial relations, for which the Post Office and the UPW share the responsibility. These circumstances have undoubtedly increased the difficulties of management, but we find that the direct cause of deterioration has been the Post Office's omission to make effective use of its manpower resources and to provide adequate and suitable capital resources through an earlier and more effective programme of mechanisation. This omission may be expected to continue to operate against the public interest unless appropriate remedies are applied. (7)

The second passage is from the Commission's report on the Generating Board:-

13.14 The fifth matter which we are particularly called upon to examine is the planning and appraisal of new investment, and the Board's ability to carry out its proposals for such investment within the cost and the time estimated. Under the first part of this heading, while we find that the Board's demand forecasting has improved, we consider that there are serious weaknesses in its investment appraisal. In particular a large programme of investment in nuclear power stations, which would greatly increase the capital employed for a given level of output, is proposed on the basis of investment appraisals which are seriously defective and liable to mislead. We conclude that the Board's course of conduct in this regard operates against the public interest. (8)

It would be surprising if the Boards concerned failed to benefit from observations of this kind.

I hope I have said enough to persuade you that top management in the nationalised industries has shown a sufficient propensity to error to justify the need for regular, independent review of its decisions and performance and also to justify the contention that such review should be regarded as a normal and indispensable tool of management. Some of you, whilst accepting the utility of managerial audit, may

feel it should remain what I have described it, namely, as a tool of management, so that it would be left to management to decide whom to commission, which areas should be examined, and how frequently. This poses the question of the appropriate arrangements for managerial audit in the case of the nationalised industries.

In my opinion, good management would, of its own accord, establish an internal system of managerial audit to parallel the system of internal financial audit. Such a system would be able to cover most of what is implied by efficiency auditing. Problems would clearly arise, however, in relation to the examination of decisions taken at Board level, especially those relating to aims and objectives, the allocation of resources, and major judgements on risks. These, however, the Board could farm out to management consultants. Such a combination of internal efficiency audit and external managerial audit would show that the Board concerned has grasped the fact that managerial audit is, in the words of Professor R. J. Freeman, "an investigative-evaluative process designed to enhance management control and accountability" (9) and would show, too, that it had sufficient confidence in its professional competence to expose its performance to systematic examination. Such a combination might be sufficient for a private enterprise but, in the case of the nationalised industries, I believe it is necessary to go further. In their case, the public interest is involved and, if you think as I do, that it is essential that the public and Parliament should be informed about the Boards' performance, the risks being incurred, and the implications for the economy and society of the

Boards' programmes and policies, a system which leaves to the Boards' discretion the frequency, direction, and character of the managerial audit and confines to the Board knowledge of any criticisms of its policies and performance becomes unacceptable. Good managements in the nationalised industries might, therefore, be expected to establish a system of internal and external managerial audit, such as I have indicated, but they should also expect their systems to be integrated with arrangements that answer the public concern, as well as their own concern, for efficiency and effectiveness.

#### The Boards' Arguments Unacceptable.

Much of the opposition from the Boards to managerial audit has been largely based on three considerations; first, the managements of private enterprises are not compelled to submit themselves to independent examination; second, the readiness of management to take normal commercial risks will be inhibited; and, third, the managements of public enterprises are already subject to numerous departmental controls and they have to account to numerous public bodies, including Select committees of Parliament and Consumers' Consultative Councils. The term "proliferation" has been used by Board Chairmen to convey their resentment at the multiplicity of their obligations. It is appropriate that I should say a few words on these three points.

There are, in my opinion, several reasons why, in regard to managerial audit, private sector practice cannot be the exemplar for

the public sector. Very briefly, the three most important are as follows:-

- i) public enterprises normally have multiple objectives whilst private enterprises are usually considered to have essentially only one objective (profitability); the measurement of the performance of public enterprises is consequently much more difficult and requires special treatment;
- ii) many decisions taken in public enterprise by top management involve huge sums, have far-reaching consequences for society, and take years to reveal their full cost and consequences, by which time the management taking the decisions may well be retired or dead. If there is to be any real accountability, decisions must, therefore, be examined soon after they are taken in order to test the quality of the decision-taking process and, within limits, the quality of the judgement applied;
- iii) the attrition of the powers of shareholders in private enterprise has given management a degree of autonomy that may be tolerable to private shareholders who normally have the facility of "exit" but is not acceptable as a standard in relation to public offices, public funds, and public policy where the public is, as it were, locked in to the continuance of the enterprise.

The argument about the impact on risk-acceptance I find particularly revealing. As I have just implied, the decisions in public enterprise that really matter and will therefore be of concern to managerial audit are the major technical choices, the judgements on the future of demand and on the cost and supply of the principal inputs, on investments, organisation, and so forth. These are not decisions taken on the spur of the moment, in the absence of information, and without a careful weighing of the alternatives and the risks. There should therefore be no problem for management in showing the grounds of their decisions and explaining their judgement on the uncertainties. If managements fear that having to justify their decisions will inhibit their taking risks, it suggests that they are currently taking decisions without proper preparation and in an excessively risky manner - indeed, that is what the investment record suggests has been happening. (10) I regard the risk argument as revelatory of a want of confidence by the Boards in their decision-taking processes and confirmation of the bitter generalisation of Professor David Henderson: "Most organisations in Britain, as elsewhere, are less interested in learning from their mistakes than in concealing them". The public interest, on the contrary, requires that, if mistakes cannot be avoided, they shall at least be studied for the lessons they teach.

On the matter of proliferation, the situation at the moment is that there is indeed a multiplicity of controls. The secret, however, is that they are, for the most part, ineffective. True, they take up the Board's time but they do not greatly impinge on their

real autonomy. A proper system of management audit would, however, transform the situation and it would certainly be desirable in such circumstances to review the control system. The Boards are thus justified in protesting against proliferation but not in using the present multiplicity of controls as an argument against a more effective control.

The Public Interest.

I said at the outset that I hoped to achieve my financial objective through the benefits to management within the range of your personal contacts to be achieved from readiness to accept managerial audit in a positive spirit; but I recognised that I might have to pray in aid the benefits to the public interest generally. To do so, I shall have to remind you of the special position of the nationalised industries.

At a time when privatisation is the dominant philosophy, it is easy to overlook the fact that the nationalised industries are not just enterprises but an extension of government. As public corporations, they are institutions of public law, not private law; they exist because of specific laws passed by Parliament; their purposes, which often include the provision of vital public services, have been defined by Parliament; their boards are appointed under powers provided by statute; they operate with capital finance derived from the National Loans Fund which indirectly is a charge on the general public; and their losses, if they occur, fall not on private

shareholders but have to be funded by loans or taxation at the public charge. As public enterprises, they could be run as government departments, as many public enterprises in Britain as well as abroad still are. Their operation as public corporations at arm's length from government is justified by the arguments that in this way commercial efficiency will be increased and political distortion diminished. It is therefore of the first importance to Parliament and the public to know in each case whether efficiency is being achieved and whether political interference is occurring, particularly if it is occurring in ways not authorised by Parliament.

On the question of efficiency, there is the special problem that the conventional private sector measure of performance, namely profitability, is frequently inapplicable, either because the nationalised industry in question is a monopoly or because of the presence of non-commercial obligations and objectives and, sometimes, of special privileges. There is the further consideration that profitability as disclosed by the accounts is in any case a crude and unreliable measure of performance. Because the nationalised industries are an extension of government and because the customary measure of efficiency is inadequate, there is the need for appropriate means of making the boards accountable for their performance.

Historically in the field of government, the modes of securing accountability have been three: reports, interrogation, and audit. The first two are useful but insufficient. Reports inevitably leave a wide discretion to the reporter as to what to include and what to

omit. Interrogation is often only effective when the interrogating authority is as well informed as the witness, as was shown last year when the Public Accounts Committee, wishing to investigate an alleged scandal at British Leyland's Bathgate plant but denied access to the Company's records, was reduced to making the plaintive complaint that they had only been able to put:-

"questions directly to BL in the hope that the answers might throw some light on the situation. But without access to the papers we could not be sure what questions, if any, might produce illuminating answers; and, in the event, this written exchange proved of limited value." (11)

If, therefore, there is to be effective accountability for their efficiency by the public officers who constitute the boards of the nationalised industries, the processes of reports and interrogation have to be supplemented and informed by managerial audit.

Earlier on, I rejected the argument that, because private enterprise was not subject to an external management audit institution, public enterprise should similarly be free from systematic scrutiny. Perhaps top management in the nationalised industry will take the more positive approach to managerial audit I have called for if they realise that it is public enterprise that is in the van of corporate development and that public enterprise is facing today the problems of corporate accountability that private enterprise will face tomorrow. In his book "The Third Wave" - a term he uses to describe the post-industrial society he believes is coming into being - the sociological impressionist, Alvin Toffler, after

describing the widening demands being placed upon the American business corporation, observes:-

"What is far more important is the concept of the corporation they imply. For the Third Wave brings with it a rising demand for a new kind of institution altogether - a corporation no longer responsible simply for making a profit or producing goods but for simultaneously contributing to the solution of extremely complex ecological, moral, political, racial, sexual, and social problems."

He then observes that:-

"once the need for multiple goals is accepted we are compelled to invent new measures of performance. Instead of the single 'bottom line' on which most executives have been taught to fixate, the Third Wave corporation requires attention to multiple bottom lines - social, environmental, informational, political, and ethical bottom lines - all of them interconnected."

"Faced with this new complexity, many of today's managers are aback. They lack the intellectual tools necessary for Third Wave management. We know how to measure the profitability of a corporation but how do we measure or evaluate the achievement of non-economic goals. Price Waterhouse's John C. Biegler says managers "are being asked to account for corporate behaviour in areas where no real standards of accountability have been established - where even the language of accountability has yet to be developed".

"This explains today's efforts to develop a new language of accountability." (12)

Those of you with some familiarity with either the theory or the practice of public enterprise will know that public enterprise has been in this situation for some time already and should, therefore, recognise that financial objectives, performance indicators, and, now, managerial audit are all pioneering efforts towards achieving efficiency and accountability under circumstances of combined

commercial and politico-social objectives, under circumstances when the conventional commercial disciplines such as a share quotation are missing, and under circumstances in which there is a growing and legitimate interest on the part of Parliament and the general public in the services, efficiency, and financial stability of supposedly public enterprises. Accordingly, I ask you, particularly those of you who are managers in the nationalised industries, not to look back to an increasingly obsolescent style of corporate management but to look forward instead to a new style, more demanding, more professional, but also more open, more public spirited, and more accountable - a style which welcomes independent managerial audit as a contribution to good management and accepts it as a necessary part of the process of full accountability to which the public is entitled.

NOTES

1. Richard Pryke, The Nationalised Industries (Martin Robertson & Co. Ltd., Oxford, 1981).
2. London Electricity Board - a report by the Monopolies and Mergers Commission, Cmnd. 8812. (HMSO, London, 1983).
3. See, for example, "Views on the Parliamentary Control of Expenditure (Reform) Bill, issued by the Nationalised Industries' Chairmen's Group on 26 January, 1983.
4. Glyn England, "Efficiency Audit and Public Enterprise: Problems and Options" in Policy Studies, Vol. 2, Part 3, January, 1982.
5. J. K. Galbraith, The New Industrial State (Penguin Books, 1969) pp. 70-76.
6. R. A. Bryer, T. J. Brignall, and A. R. Maunders, Accounting for British Steel (Gower, 1982) - but see also my review in Public Administration, Vol. 60, No. 4, Winter, 1982, at pages 493 to 495.
7. The Inner London Letter Post - a report by the Monopolies and Mergers Commission, HC 515 (HMSO, London, 1980), pages 89 and 90.
8. Central Electricity Generating Board - a report by Monopolies and Mergers Commission, HC 315 (HMSO, London, 1981), page 292.
9. International Journal of Government Auditing, October, 1975.
10. See, for example, the graph comparing the real rates of return on capital employed in the nationalised industries and in "industrial and commercial companies" and in "manufacturing companies" in the Eighth Report of the Treasury and Civil Service Committee, 1980-81, HC 348, Vol. 111 at page 54.
11. Public Accounts Committee, Twentieth Report 1981-82, HC 407 (HMSO, 1982), at para. 33.
12. Alvin Toffler, The Third Wave (Pan Books, London, 1981) at pages 245 and 251.

EFFICIENCY AUDITING, THE SCOTTISH EXPERIENCE

by

J. W. Trowman, Controller of Audit, Commission for  
Local Authority Accounts in Scotland.

Introduction

When the Commission for Local Authority Accounts in Scotland assumed responsibility for the audit of local authorities' accounts in 1975, the idea of the external auditor becoming involved in value for money was quite new, and there were many who asked about the auditor's role and powers in this area. Not that value for money auditing is a new concept in itself, but it had not been developed in Scottish local government as it had elsewhere in the public sector.

It is necessary, therefore, to consider the purpose of an external audit and the arrangements for the audit of the accounts of Scottish local authorities, before dealing with the main theme of "Efficiency Auditing, the Scottish Experience". This title does not confine itself to local authorities. However, while some reference will be made to other areas of the public sector, this paper does in the main deal with value for money audit in Scottish local authorities.

Purpose of Audit

All public companies, Government departments and local

authorities are required by statute to account for their activities over a specific period of time, which is usually their financial year. This is done partly by report, but more formally and in greater detail by publishing financial accounts showing activities during the year and the position at the end of the year. They are, therefore, accounting for their activities as reflected in the books of account and this is accounting in the true sense of the word. Although the financial director is responsible for preparing the accounts it is the body itself which is accounting, and where that body is a public body this duty of accounting is fundamental to our system of government.

Government departments, including such bodies as Health Boards, etc., and local authorities are accountable to the public as tax and ratepayers for their stewardship of the funds which have been compulsorily collected by them and used, or appropriated, in order to provide the services for which they are responsible. Central government departments account to the public via the Public Accounts Committee and the House of Commons through annual appropriation accounts, while local authorities fulfil the same function by publication of an abstract of their annual accounts.

But an organisation's accounts are prepared by the organisation itself. It is reporting on its own activities and provision is, therefore, made for the accounts to be corroborated independently of the organisation and this is where the external auditor comes on the scene.

After audit, the accounts of bodies in the public sector are all published and made available to the public who are entitled to accept the auditor's certificate on those accounts as confirmation that they truly reflect the activities of the organisation to which they relate.

#### The Auditor's General Duties

It has long been recognised in the UK and elsewhere that the requirements for the audit of public funds are wider than those applicable to the audit of commercial undertakings. Over and above his traditional function relating to the accounts, the auditor of public funds has had to concern himself with the possibility of loss due to lack of economy and efficiency in the use of resources.

His duties may conveniently be described under three heads. First "regularity" - this relates to the adequacy of systems of control over expenditure and payments, income and receipts, assets, etc. Second "legality", in other words ensuring that the body under audit is acting at all times intra vires. This is a particularly important area where local authorities are concerned because, being creatures of statute, they may only do that which they are statutorily empowered to do. Finally, "Value for Money" which is nowadays more accurately termed "economy, efficiency and effectiveness".

Only the first of these three areas of duty, i.e. regularity, is usually involved in the private sector. Investors are interested mainly in the maintenance of assets and in the manner in which they

have been employed to produce a profit. They invest voluntarily and may withdraw their investment if they are not satisfied with the manner in which it has been managed.

#### Audit Arrangements for Scottish Local Authorities

Prior to the re-organisation of Scottish local government in 1975, there were over 400 local authorities all of which were audited by private sector auditors, most of which were small - in many cases one-man - firms. Because of their minimal involvement with local authority accounts they were not very familiar with local government law and, as it did not feature in their private sector work, they paid scant attention to value for money. In the meantime in other areas of the public sector, such as central government and local authorities in England and Wales, value for money audit had been developing for many years.

In 1975 the Commission for Local Authority Accounts in Scotland assumed responsibility for securing the audit of local authority accounts, including the remuneration of auditors which had previously been provided by the individual local authority. External auditors now operate under the guidance of the Commission, although they do have their own statutory duties. This guidance takes a number of forms and earlier this year the Commission approved a comprehensive set of Standards and Guidelines specifically for the audit of Scottish local authorities, with which all auditors appointed by the Commission are now required to comply.

### Auditor's Statutory Duties

The auditor's statutory duties in Scotland are limited to satisfying himself by examination of the accounts and otherwise that,

- a. the accounts have been prepared in accordance with regulations and comply with all relevant enactments, and,
- b. proper accounting practices have been observed.

There is no statutory requirement upon him to report, although he is required to place his certificate on a copy of the abstract of accounts.

As a matter of interest, legislation applicable to England and Wales also requires the auditor to satisfy himself that the local authority whose accounts are being audited have made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This final requirement was only included in the law under the Local Government Act, 1982. As explained earlier, however, value for money auditing, which is what this is, has been conducted in England and Wales for many years without the need for specific legislation of this nature.

The Comptroller and Auditor General and his department the Exchequer and Audit Department, have also been conducting value for money audits for a considerable time in all UK central government departments, without being specifically required to do so by statute.

Under the National Audit Act, 1983 the Exchequer and Audit Department is due to disappear but, of course, the work will continue through the National Audit Office. There is still no specific duty laid upon the Comptroller and Auditor General in respect of value for money but the National Audit Act does permit him to carry out examinations into the economy, efficiency and effectiveness with which departments discharge their functions.

In my view these are retrograde steps as we are beginning to define "audit" within the statute and this could have the effect of inhibiting what is, and should continue to be, a dynamic and continuously evolutionary process. I hope, therefore, that this duty of the audit is not introduced into Scottish legislation and that we can continue to regard VFM as an integrated part of the audit of public sector bodies without such statutory specification.

#### Standards and Guidelines

I mentioned earlier that the Commission has recently approved a comprehensive set of standards and guidelines for the audit of local authority accounts. and one of these guidelines deals with economy, efficiency and effectiveness. Although this detailed guideline has only recently come into operation there has been a specific requirement since the Commission assumed audit responsibility in 1975 for auditors to pay attention to value for money.

In the guideline, "economy" in this context is defined as the

terms under which the authority acquires human and material resources. An economical operation acquires these resources in the appropriate quality and quantity at the lowest cost. "Efficiency" is defined as the relationship between goods or, more usually, services produced and the resources used to produce them. An efficient operation produces the maximum output for any given set of resource inputs; or, it has minimum inputs for any given quality and quantity of services provided. As far as economy and efficiency are concerned, therefore, value for money could be defined as the best possible service at the lowest possible cost or (and unfortunately this is what we are faced with most of the time), it is the best possible service for whatever limited resources are available.

Finally, "effectiveness" is defined as how well a programme or activity is achieving its established goals. Economy and efficiency in the execution of programmes is of small consequence if those programmes are not meeting the authority's objectives.

To give a practical illustration of these definitions we could take the duty imposed upon a local authority to care for the elderly. Many authorities fulfil this function by the provision of residential homes. Whether or not the homes are being run efficiently and economically can be tested by examination of the arrangements made for obtaining the goods and labour needed to provide the services and the level of those services. What needs a much more detailed examination is the effectiveness aspect. Is the local authority achieving its objective of providing the best care for the elderly by providing

residential homes? Irrespective of the cost, could it provide better care with purpose-built individual residential units under wardens, or by community care or some other method? The process of assessing effectiveness in areas such as this one presupposes that policy objectives can be defined with some precision rather than in broad conceptual terms and this is not always the case. Indeed very little progress has been made in identifying measures of ultimate effectiveness which are credible and cost effective to ascertain.

Local government administration is, however, made up of a large number of separate activities where it is possible to measure in practical terms what is being achieved. Such measures, sometimes referred to as intermediate measures of output, include unit costs, comparative statistics, measures of provision, activity or performance which enable managers to see what the resources under their control are achieving.

#### Detailed Audit Guidance

It is in these areas that the auditors appointed by the Commission have been encouraged to develop that part of their audit which is mainly concerned with value for money. I say "that part of their audit" but I do not wish to give the impression that the audit of economy, etc. is something which is over and above the normal audit. It is an integral part of a public sector audit which is conducted on the lines of a systems approach. Not a systems audit, as such, but a systems approach to audit. In other words, systems of

financial control are examined and tested by auditors not as an end in itself but as part of the process by which the auditor satisfies himself as to regularity, legality and value for money - in equal measure.

All auditors appointed by the Accounts Commission are required to produce an audit programme and included in the programme is provision for examination in depth of relatively narrow areas of activity. Obviously all areas of a local authority's activities could not possibly be examined by the auditor in depth every year. Some sort of a cyclic programme covering all areas over a period of possibly five years is drawn up, but this is often amended in the light of findings in other parts of the audit. In addition, the auditor is asked to make provision in this part of his programme for a specific subject to be examined as part of a co-ordinated exercise across all authorities. So far these have concentrated mainly on controls such as internal audit, budgetary control, control of contracts, etc.

While it is true that such in-depth examinations are the ones which are most likely to reveal any failure to achieve value for money, they are not designed only for that purpose; they could also reveal irregularity or illegality although this is much less likely.

#### Auditor's Duty on Value for Money

The auditor's duty on value for money as part of his audit is limited to establishing that *prima facie* there is a failure to achieve

value for money. This involves him in a certain amount of work because it is not sufficient merely to point to a comparative statistic as being satisfactory evidence. He must carry out an examination and produce such data as will convince management that there is sufficient evidence to merit further investigation. That is where the auditor's duty ends, at least for the time being. Responsible management will take over at that stage because the achievement of value for money is the responsibility of management just as much as the establishment of effective systems of control are the responsibility of management.

#### The Commission's Role

The first stage is, therefore, the auditor's. The second is management's, and that involves a much more detailed investigation firmly to establish that there is indeed a failure to achieve value for money and then to determine what effective remedial action needs to be taken. In some cases this may be relatively straightforward but in others it may well be extremely complicated and require the expertise of other professionals, such as specialists in O and M, Work Study, Computers, etc. A number of the larger authorities have all the expertise to hand to carry out this task, but the Commission have recognised that many local authorities do not and they have made provision in their budget for the auditor to assist the local authority. In suitable cases the auditor may suggest to the local authority that they should carry out a joint exercise and, if the local authority agree, the auditor refers the case to the Commission

for consideration.

Before any such exercise is approved however,

- a. a case must have been made for the need to carry out the exercise;
- b. the local authority must not only have agreed to co-operate, but also to participate;
- c. the subject matter should be substantial, and,
- d. the experience gained in carrying out the exercise should be of benefit to other similar authorities.

Finally, and this is a most important aspect, after the auditor has reported, the consequences of his report must be monitored. Did the local authority agree the recommendations and if so, did they act upon them and if not why not? Were the savings which any remedial action was designed or expected to achieve actually produced and, again, if not why not? In this way, the full benefit from the exercise may be obtained.

#### Experience to Date

Because, in 1975, this aspect of the audit was new to local authorities, it was naturally regarded with some reservations. All along it has been emphasised that while the auditor has his statutory duties to fulfil, he is encouraged to carry them out as far as possible in such a manner as to be of assistance to, rather than an imposition upon, the local authority. Nowhere is this more true nor

more easily achievable than in the area of value for money. The auditor investigates how the authority's policy objectives are being met and draws attention to any areas where there appears to be wasteful expenditure or any other indications of uneconomical or inefficient practices.

The auditor is not there to question policies, although the introduction of effectiveness brings him closer to the position. This does not mean that he should not bring to the attention of members the financial consequences of their policy decisions, particularly if these vary markedly from estimates and they have not already been brought to their attention by officers.

#### Further Development

Experience has shown local authorities that they have nothing to fear from a value for money investigation by the auditor and a number have positively responded by asking for exercises to be carried out or to be included in other exercises being undertaken in other authorities. This is encouraging because this area of the Commission's functions can only be effectively pursued with the full and active co-operation of the authorities involved. The Commission's own resources are, of course, limited and for this reason, among others, development of the audit has not been as rapid as we would have liked. The main area which has suffered has been on comparative studies and that is the one where the main emphasis is being laid in the immediate future.

It will involve in-depth investigations into the control of expenditure, costs, etc. of one aspect of a local government activity carried out simultaneously at a number of authorities to determine what management information is needed if managers are to make the most of the resources available to them. What information is being made available to management and how are they using it? In this way it is hoped to produce not so much an ideal model, because all local authorities are different, but the basic type of information which is needed and how it should be used to best advantage. The studies will also help to provide solutions to problems arising by showing how they have been solved elsewhere.

### Conclusion

I hope that I have been able to show that with his professional expertise, his experience of practices in other, similar bodies, and the dissemination of information on value for money audit exercises conducted in other authorities, the auditor is in a good position to make a positive contribution to the economic, efficient and effective use of resources.

But we must not lose sight of the fact that the main and ultimate responsibility rests with management at all levels. The assistance provided by the auditor is only one of the aids available to management to help them to fulfil this responsibility. No matter how good the audit, it can only be an aid and it can never, and neither

should it, take the place of management. In my view we are not going to achieve anything like full value for money in the public sector without a fundamental change of attitude by management and in that I include everyone from elected member to junior officer.

Earlier on I talked about the accountability of a local authority, as a body, to the tax and ratepayers. This is external accountability, but there is also internal accountability by Chief Officers to the authority and all down the management line. While there usually is a line of responsibility in that each officer is accountable to his immediate superior for his activities, in my experience this accountability rarely extends to include the cost of those activities. What is needed is for the budget to be broken down so that each level of management is in no doubt about

- a. the objectives to be achieved, and
- b. the resources which are available to meet those objectives.

In other words, for cost centres to be established at each suitable management level and then for each level to be accountable not only for achieving the objectives but also for the economical and efficient use of resources. But this is only half the story. In the private sector the profit motive provides a strong incentive to be efficient and what is needed in the public sector is an incentive which will provide the same level of motivation. There is no such incentive at the present time and management tends to pay attention only to the quality and quantity of service provided and not to the resources

required to produce that service.

In recent times we have seen an extension of competition in the public sector. Local authority direct labour organisations are not required by statute to compete with the private sector and show a return on capital employed. Non-statutorily some local authorities are placing contracts for street sweeping, refuse collection, school cleaning, etc, and the Health Service is being pressed by central government to do the same. Whether or not this will result in better value for money remains to be seen, but this is not an incentive. It is more like a stick than a carrot and there is already evidence of private sector contractors who are not producing the necessary quality of service. However we may define value for money, what it is not, is the cheapest service available regardless of quality. Cash limits is another device of Central Government and here again it is debatable whether the restriction on spending produces better value for money or merely a reduction in the level of service.

There have been a number of research studies into output measurement but much remains to be done in that area. There have also been many exercises on individual subjects illustrating how value for money can be achieved. Where I feel that there is the greatest need is for fundamental research into management motivation as such. What is there, as an incentive rather than a threat, which can replace the profit motive in the private sector? It may be an impersonal reward for meeting or beating expenditure targets for example where management is permitted to spend on one head a percentage of any

savings made on other heads. Personal reward has been tried in the shape of incentive bonuses with, in many cases, disastrous consequences which are still with us. But that does not mean that same sort of personal reward system could not be the answer. This is a study which I feel must be carried out if we are to make the most of our limited and, in some cases, shrinking resources, and it could well be that we will have to rethink some of the long-established public sector practices, including the method of remunerating management.

In the meantime the auditors appointed by the Accounts Commission will be encouraged to continue to play a full part in assisting management to achieve economy, efficiency and effectiveness.

A CONSULTANT'S EXPERIENCE IN UNDERTAKING

VALUE FOR MONEY REVIEW

by

John Fielden, Peat, Marwick, Mitchell & Co.

1. Background and Distinctions

I intend to talk in this paper about my experience in undertaking external reviews and then to raise some general issues about the VFM approach overall. Thus, I will focus to some extent on the practical concerns of a practitioner.

I would like to distinguish the different categories or levels of VFM. In my mind it can be carried out:

- by individual line managers whose ultimate responsibility it is,
- by internal audit teams, management services staff or "Efficiency Studies Units" (or whatever) (sometimes with outsiders) serving the needs both of line managers and of an Audit Committee (or perhaps Performance Review Committee) for internal reviews of efficiency,
- by external auditors (either by statute as in local authorities in Scotland and England) or by agreement as in some private sector companies;

- by external reviewers (MMC or management consultants) to specific terms of reference, often for a funding agency. Such studies are usually of a significant size and duration.

Each of these four categories has a different time scale, work content and set of objectives. Some are voluntary, while some are imposed. This distinction has a major impact on the operation of the review, as I shall show later.

We therefore have a problem of definition. There is no simple model of a VFM review. Expectations and traditions also vary in different parts of the public sector. Relatively little emphasis is yet given in England to VFM in the external or internal audit of the NHS (although Patrick Salmon has given it a boost in his recent reviews of NHS audit practice). By contrast the Audit Commission seems to inflate almost weekly the proportion of audit time to be devoted to VFM within a local authority context. I last heard 50% quoted.

A further distinction not unrelated to the voluntary/imposed split is one of motive. Is the VFM audit to be a service from the auditor to his client, in which he promotes the review only to improve his client's efficiency (and does not have consultancy sales as a target) or is it a policeman function with cost cutting as the anticipated outcome? How many Rayner studies for example have reached the same (reported) conclusion as Clive Priestley's recent review of the Royal Opera House that it was underfunded in some

respects? If politicians get more answers of this kind, will VFM studies cease to have appeal? Will they be interested in studies which show how operational systems could be improved to increase overall effectiveness of a service? Clearly, I am not qualified to answer these questions, but pose them merely as predictive markers.

Following the structure outlined, I would now like to describe three different reviews in order to highlight the operational methods in use.

#### Case Study A Imposed review of a water authority

In October 1981 Michael Heseltine, then Secretary of State for the Environment, appointed four firms of consultants to carry out brief four week reviews of the ten regional water authorities in England and Wales. Ostensibly, the purpose was to review the October submissions which were preliminary budgets for the following financial year. However, an additional feature which received growing emphasis was a review of progress towards improvements in efficiency and reductions in costs. It became clear that Ministers expected the consultants to give views on how future costs could be contained after 1982/83. The brief was therefore formidable; to assess the potential for savings in large complex bodies employing between 10,000 and 20,000 people and to report within a space of four weeks. I am sure that most firms tackled it in the same way as my own. Mixed teams of staff from varying disciplines, (a preponderance of accountants, where possible, with previous experience of the water

industry), gruelling rounds of visits to treatment plants and divisional offices, perusal of volumes of reports and studies and lengthy negotiations and discussions with the senior authority staff over the draft report. Fortunately, in our case we were able to enjoy pleasant and cooperative links with the authorities concerned despite the upheaval and tension our exercise had caused.

Clearly, the end products of such reviews must owe a great deal to the investigative talents of the study team. It is not possible to conceive of a rigorous methodology which would produce the results required. Short sharp studies of this kind must involve running many risks; rejection by those reviewed on the grounds of shallowness or naivety, rejection by staff because of non consultation and nonparticipation, and rejection by the ultimate client if major savings are not produced. Thus, while such exercises appear tempting to Ministers, they are dubious as illustrations of a VFM model.

#### Case study B VFM studies within a local authority audit

The Local Government Finance Act 1982 included in Section 15 a requirement that the auditor should satisfy himself that "the body has made adequate arrangements to securing economy, efficiency and effectiveness in its use of resources". This clause formalised an earlier (1974) requirement to take account of value for money. Local authority auditors in the current year are therefore having to grapple with the problems of how to devote 40-50% of their audit time to VFM studies. While the District Audit Service claims considerable

experience of such work, private sector firms like my own have to adapt private sector experience of management audits/operations reviews (or whatever) to the new requirements. Since I know that different approaches are being developed by my competitors, it is clear that there will not be consistency until the Audit Commission publishes its manual on the topic. Allow me, however, to describe the (well considered) way Peat Warwick is approaching such audits.

At the planning stage of each audit PM staff will work out a VFM audit programme for the year, taking into account the following factors:

- advice and guidance from the Audit Commission,
- wishes and preference of members and officers,
- findings from previous audits,
- statistical indicators or trends causing concern.

The outcome of this discussion will be a series of agreed "in depth" studies, each lasting perhaps 3 to 4 weeks, of particular departments, operations or processes in the authority. Examples might be; residential day care, a sports centre, manpower management or capital appraisal processes. The studies would be staffed by Peat Marwick with appropriate specialists, drawing where necessary on the consultancy firm of engineering, personnel, computing or other professional skills.

A framework of questioning has been developed for these studies; it is embodied in the firm's Economy, Efficiency and Effectiveness manual. This contains both guidance on how audits should be undertaken, controlled and reviewed, and a series of management review guides. There are 20 of these, which represent the heart of PM's approach. In essence they are statements of good management practice and describe the "arrangements" (to quote the statute) which one would expect to find in a well run organisation for securing economy, efficiency and effectiveness. They provide a benchmark against which the auditor can carry out a diagnostic review of the authority's operations. Once the review is over, the result will be a series of points where management does not appear to match up to best practice. Clearly, these must then be carefully reviewed with the chief officer concerned to eliminate those points which are irrelevant or which have been reasonably rejected.

Inevitably the methodology adopted leads to the VFM report containing recommendations for new controls, reports, statistics or information systems. These are the "arrangements" that will be required to achieve the three Es. Once they are provided, it will be argued, the authority will be in a much better position to take management decisions and perhaps to achieve cost reductions or improvements in the provision of services.

It may be of interest to add that there is a growing trend among private sector auditors to offer value for money studies as part of an audit service to private sector clients. The public sector should

take pride that it has achieved a major export breakthrough.

Case Study C In depth reviews within a Non Departmental Public Body

Following an earlier study for this organisation, my firm was asked to carry out three efficiency studies of selected areas of their operations. The objective was to test the approach and to see how external investigators would fare compared with the organisation's own management services and internal audit staff. This was not an implicit criticism of these two groups, but merely a recognition that they were internal and less able to show objectivity. We were also charged with working jointly with the organisation's staff in order to share the load and help train their staff in such work.

Three extremely diverse areas of activity were chosen; one was an organisational unit employing 20 people but providing a service throughout, the remaining two areas were across the board functions in which every employee was likely to be involved. We identified three specialist staff to undertake the studies, which varied in duration, lasting six, ten and twelve weeks respectively.

The brief in these studies was analogous to Rayner studies; to question the need for the department or function, to ask whether it could be carried out or organised in any other way and to report on how the operations could be simplified or made more efficient. Since all three studies covered central service activities, the question of service and effectiveness in providing it was raised. Sadly, we found that the objectives of the three activities were not clearly

defined throughout the organisation.

These in depth reviews were very much in the second of the three categories I have outlined at the start of this paper. The subjects for study and the terms of reference were agreed by senior executives and the final reports went through them to the Board. Implementation of our recommendations was then the responsibility of the senior management for the area under review.

### Conclusions and Lessons

What conclusions, apart from the obvious one of diversity with which I began, can we deduce from my practical descriptions?

These are several key points: Most of the studies, at any rate those done by outsiders, have concentrated on arrangements, systems or procedures and have not ventured far into the areas of effectiveness or policy. Very few have questioned the operational activity or services, particularly those which are most sensitive such as social services or education, even in the CIPFA series of value for money handbooks. If you look at the 40 case studies in each volume, none of them really tackled head-on the operations of the key services, and focus instead on the standard well-worn areas of review like refuse collection, swimming pool charges, school meals etc., etc. None have looked at how an educational service is supplied and asked how we measure efficiency of such provision. Programme evaluation is even more rare.

I think one can categorise evaluation exercises into four types.

The first level, which we seem to have no worry about, is an evaluation of support services as regards their economy and efficiency; by and large I think professional firms like ourselves, the MMC and Rayner teams find it easy to review and evaluate at that level. You will recall that the Rayner study of government research establishments a year ago only looked at the support services; it did not ask about the 80 per cent of resources devoted to staff and question whether the scientists were operating effectively. It was quite happy to look at the security guards, the porters and the drivers. The second level is an evaluation of management styles and processes from the efficiency perspective. Here again, I think management consultants feel themselves competent to pass judgement on management; a general view is that management in a public sector organisation has many disciplines and processes which are common to the private sector and therefore subjective judgements are relevant. The third level I would call evaluation of operations or looking at the economy and the efficiency of what actually goes on where the service is delivered. Here practice is a little more tentative and varied. In some operational areas there is no hesitation; there is no shortage of efficiency reviewers clambering around DLO staff or refuse collection depots. There is a notable shortage, as I have implied, in hospital ward or classroom. The fourth and final level is the evaluation of results or performance in achieving objectives, using the magic word effectiveness. There, I believe, we have hardly penetrated at all, although I cannot confirm the claims of the Exchequer and Audit Department (now the National Audit Office) who say that they have done a lot of this work.

What I am trying to show by this categorisation is that we have not progressed far yet in practice in the hierarchy of evaluation; we are still hesitating about half way up this ladder. The Audit Commission may well be planning to change this in English local authorities, as they are planning studies in some of the most sensitive areas.

If I can sum up, the sort of conclusions that I am reaching are that we have a very wide range of methodologies depending on what type of value for money review you are talking about. There is very little in common between them, because of the constraints and time scale, or audience, or whether the study is imposed or voluntary. At the moment, sadly, there is little exchange of information between those engaged in the activity of value for money reviews; E and AD in particular are not keen to share their experience. We have as well a great range in the skills and experience of staff undertaking VFM, particularly within an audit framework. It is not always going to be possible to use more expensive consultancy or specialist staff. The bulk of the value for money work in an audit framework will therefore be undertaken by people who have an accountancy training. This applies to the Audit Commission and E and AD just as much as to private sector firms. Unlike Sweden we have no emphasis on disciplines like the social sciences in our evaluation teams. Some critics would say that we should. I am not so sure. In the private sector consultancy firms there is roughly the same mix of professional disciplines as in the MMC, which is a fair benchmark.

Despite all these differences of methodology and staff, the public expectations about value for money are the same and this is one of my principal concerns; everybody seems to think that efficiency reviews are a common product with a common output and do not appreciate the limitations either of staff or of time scale and cost. This worries me because I think we all ought to try and define a little more clearly just what types of value for money review there are and what the public should expect from them.

## EFFECTIVE AUDITING - THE SWEDISH EXPERIENCE

by

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The purpose of my comments today is to present the idea and the practice of effectiveness audit as it has been developed by Riksrevisionsverket, i.e. the Swedish National Audit Bureau (RRV or NAB for short). In doing so, I will discuss the following points

- an overall definition of effectiveness auditing and the mandate of the Bureau
- the institutional setting, i.e. the structure of public administration in Sweden and the Bureau's place in it
- the Bureau itself in terms of resources, organisation and output
- the phases of a typical project
- the historical development: where effectiveness auditing came from and where it is now
- the experience: strengths and weaknesses

### 1. A overall definition

In most cases there are two ways of describing the work of the public sector. Sometimes we choose to discuss it in terms of the

social programme or we may focus on the government agency (agencies), i.e. the organisation responsible for running the programme.

An area that we analysed last year (1982) was national fishing policy. As a programme this involved a set of measures to support fisheries and to control prices, policies for the preservation of fish species, and environmental care of the sea and lakes, supporting activities for recreational fishing etc. Looked at from the organisational point of view, there was a system of public authorities - the National Board of Fisheries, regional fishing authorities, state fishing ports, research laboratories, etc.

Thus, when it comes to effectiveness auditing, there is always a dual perspective involved:

EFFECTIVENESS AUDITING = THE ASSESSMENT OF	
THE EFFECTIVENESS OF THE PUBLIC PROGRAMME	GOOD MANAGEMENT ON PART OF THE AGENCY
FROM THE PERSPECTIVE OF AN EXTERNAL EVALUATOR	

An important part of the above definition is that NAB audits are a form of external evaluation. The Bureau acts on behalf of the Governments (1), which has provided it with -

- a mandate that gives the Bureau the responsibility of carrying out effectiveness audits in all areas that are funded via the state budget
- resources which at present allows the Bureau to have approximately 150 people working in its Audit programme

During the annual budget process there is a dialogue between the Bureau and the Government, concerning the overall guidelines for the Audit programme. Given the framework of the general mandate and the guidelines put forward in the Finance Bill, the Bureau itself decides the themes and the specific areas to be audited.

This has important consequences for the relation between the Bureau and the agencies subjected to audits. The agency is obliged to accept the fact that an audit is to take place and to help in various ways required, i.e. give access to accounts and documents and to allow the auditors access to agency employees for interviews. There have been instances when strong agency heads have tried to fend off the audit, but this is rare nowadays, as the idea of NAB audits is now established as a regular feature in Swedish public administration.

In one sense the Bureau has important powers, given its right to decide upon the timing and the orientation of an effectiveness audit in any area of state-funded activity. Moreover, every report is published and available for any interested reader. The NAB conclusions are usually commented on in the press. On the other hand, the Bureau has no authority whatsoever to enforce its findings.

The responsibility for implementing the NAB proposals rests with the audited agency (or with other actors in the audited sector). Hence the impact of an effectiveness audit must always rely on our powers of persuasion and the strength of our analysis. It is true that we may at times have recourse to the Government itself, i.e. bring matters to the attention of either the relevant "sector" Ministry or to the Ministry of Finance. During most of the history of effectiveness auditing, this has been the exception rather than the rule. However, as I will comment on later, this is something that is now changing.

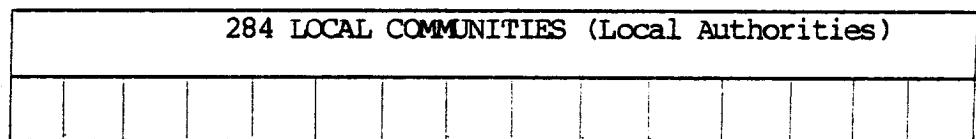
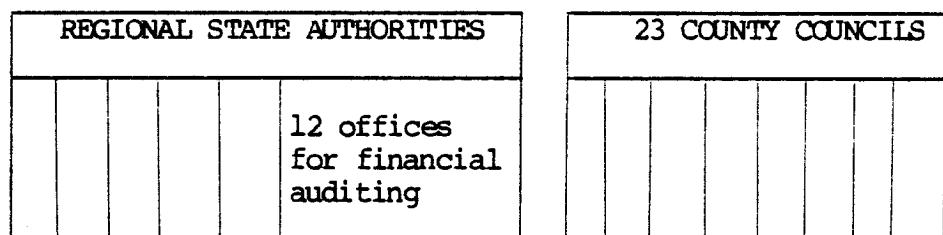
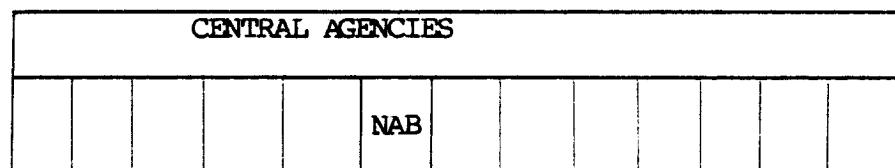
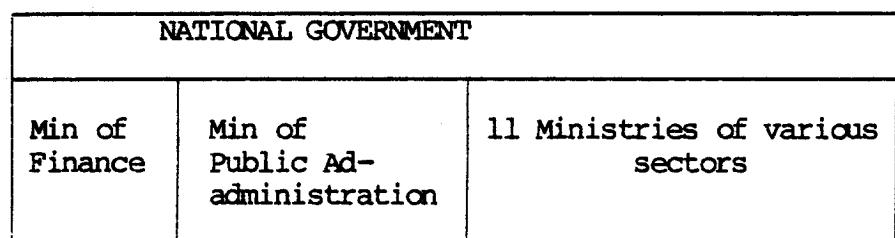
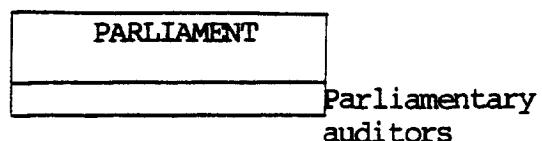
Another way of explaining the underlying idea of effectiveness auditing is to note that two fundamental issues lie behind most NAB analyses

- does the tax-payer get good value for money?
- do agencies handle their task and resources in a rational and responsive way?

These are simple ideas, but they certainly require considerable thought and hard work when it comes to developing them in terms of an effectiveness audit! Before we continue this main theme (section 4 below), it is important to understand the structure of public administration in Sweden (section 2) and the organisation of the Bureau (section 3).

2. The institutional setting

The structure of public administration in Sweden can be outlined in the following way:



Compared to their counterparts in other countries, the ministries are quite small. A sizeable share of the tasks performed by large ministries in other countries, is in Sweden, the responsibility of the so-called central agencies. These vary both in terms of size and field of influence, but a common trait is that they all enjoy a degree of autonomy in relation to their respective ministry. Among these central agencies we find NAB, the National Audit Bureau.

In many areas of the public sector, there are also state authorities at the regional level. For example there are 12 offices for external financial auditing. Each of these offices has been assigned the responsibility for auditing a group of central and/or regional state agencies. (Thus, financial auditing of state authorities in Sweden has been decentralised. The role of the Bureau is supervisory - I will return to this later.)

In other areas, such as primary and secondary education, social services and health care, the responsibility for implementing public programmes does not rest with central state agencies. We have 23 county councils ("landsting") concerned with health services and regional transportation, and 284 local communities (local authorities) concerned with schools, social services, local transportation, public utilities etc. Both the county councils and the local communities impose their own taxes. They also depend heavily on central state grants. As regards auditing, each council and each community is required by law to appoint their own auditors. These politically appointed auditors are laymen. Some of the larger

councils/communities have audit departments. Others rely on the services of the Swedish National Association of Local Communities or those of chartered accountants.

### 3. The Bureau itself

In 1982/83 the total budget of the Bureau was 66.8 million SEK (approx. £5.7 million) and it employed 280 people. The activities are divided up into two main programmes supplemented by a central staff and common facilities:

NATIONAL AUDIT BUREAU		
CENTRAL STAFF COMMON FACILITIES	PROGRAMME 1 AUDIT	PROGRAMME 2 PROGNOSSES

The organisational outline of the Audit programme is:

PROGRAMME 1		
EFFECTIVENESS AUDITING		Personnel
General audits	7 audit units each oriented towards ministerial sectors such as Defence, Education, Agriculture etc.	105
Special audits	4 audit units for - state fees and charges - state procurement - state regulations - state computer systems	30
FINANCIAL AUDITING		
Agencies in general	1 audit unit	15
State public utilities	1 audit unit	

In addition to the 280 employees of the Bureau, there are also some 140 people employed at the 12 audit offices for external financial auditing. The role of the Bureau is that the audit unit for financial auditing monitors the activities of the audit offices, by issuing regulations and manuals, giving advice and arranging conferences etc. As regards the state public utilities, such as the Post Office and the Swedish State Railways, financial auditing is organised somewhat differently. In this field, the Bureau is itself directly responsible for financial auditing. The Bureau's audit unit works with chartered accountants in this area.

The emphasis of the Bureau's Programme 2 is on various aspects of the state "accounting system" such as

- the national accounts
- financial forecasts (expenditure and income trends)
- financial statistics
- development of the state accounting system
- technical assistance to agencies in the field of planning and accounting

The remainder of this paper concentrates on effectiveness auditing and on the work of the Bureau's units for effectiveness auditing (2). Their task is a wide one, as it involves practically all kinds of activities within the public sector. (In order to illustrate the wide range of effectiveness auditing activity, a list of projects completed in 1982/3 is reprinted in an appendix).

#### 4. The audit project

##### The pre-project phase

There are several factors that determine the choice of theme and scope of an audit project

- the specialist competence of the audit unit, i.e. the experience and knowledge of the 10-15 people that form the particular unit. One principle in our recruitment policy is that we sometimes hire people with previous experience from the policy area being audited by the unit.
- the on-going monitoring of trends and events in the unit's area of responsibility. The staff of the unit continuously monitor government bills, committee reports, agency budget requests etc.
- the general guidelines put forward in the Bureau's internal planning system
- conclusions from "pre-studies" and recently completed projects. The pre-studies are an important component of our work method. They vary greatly in scope, sometimes being a limited effort to check the legislative basis for a programme and the availability of data. In other cases, the pre-study is a major review of a policy area in order to pinpoint

structural problems and to develop an audit strategy, rather than an outline for a single project.

There are also, at times, informal contacts between the Bureau and the relevant ministry, particularly when a major audit effort is being considered.

#### The project in operation

The typical audit project lasts between 6 months to 1.5 years. The project group usually consists of 2 to 4 people. Total resource input in terms of man-days varies between 100 and 800, with an average of 350 man-days.

When the decision is taken to go ahead, with a particular audit, there are certain basic activities common to all projects.

- a formal introduction at the audited agency (agencies). In most cases a "contact committee" is set up with the task of facilitating the dialogue between the NAB group and the agency.
- interviewing "strategic persons", i.e. people in the top management of the agency and people with special knowledge in the field etc.

After this introductory stage, projects differ greatly both in the way

data are collected and in the kind of analysis undertaken. There are a number of major approaches.

Some projects use quantitative analysis based on a large data bases. Last year we sent out a questionnaire on local wage bargaining to 100 agencies (out of a total of 300 small and medium sized agencies). In another project 1,000 case histories were analysed as part of the audit project on early retirement pensions.

In many projects there are field observations of various kinds. The most colourful example last year was perhaps the audit for the defence sector which sent out a group of auditors to watch a large-scale military manoeuvre in southern Sweden! Another example was the thorough organisational analysis of the inner workings of nine university departments at Lund, within the audit project on postgraduate education.

The "traditional way" in the history of NAB audits, is overhauling the central agency. Nowadays this is in most cases supplemented by other investigative efforts such as the field observations and the quantitative analyses described above. Based on such empirical findings, it is quite common that the audit project produces a critical analysis of the central agency and a set of recommended measures that it should consider. An approach that we recently have begun to explore is the development of analytical models based on computer techniques. The major effort so far is a project that involved building a large-scale model of how the disposable

incomes of households are affected by the various parameters and regulations reflected in the income tax system and in the different allowances for children, housing etc. as well as charges for child care and other public services.

#### Outcome of the project

In principle there are two kinds of outcome stemming from an audit project

- an appraisal of the current state in the audited area, such as an assessment of the agency that has to implement the programme, identification of structural factors that impede the attainment of objectives, analysis of various indicators of effectiveness, incidence of costs and patterns in resource use.
- a set of recommendations, in most cases oriented towards a central agency but today also, to some extent, directed towards the government level.

The main thrust so far in terms of recommendations has been to call for changed behaviour at the agency level. In some cases the Bureau has pointed to the need for an overall change in the agency's role and in its internal allocation of efforts between different tasks. There are also frequent recommendations that the central agency should adopt better management practices such as more advanced planning, more

explicit evaluation etc.

It is likely that the NAB reports have an impact in this context. Some central agencies are now beginning to address new tasks and to improve their capacity to function as an "evaluation information system" in their own policy areas. Another common theme in the audit reports is the lack of coordination between overlapping central agencies. This is of course the kind of problem that is much harder to influence, even if it is quite easy to identify!

Furthermore, many audit projects result in recommendations aimed at improving "vertical" interrelationships within the policy area. For instance, the Bureau may recommend that the central agency should delegate some authority to regional or local bodies or that it should try to give better support to lower levels by issuing clearer regulations or giving better advice. It seems that our reports in some cases have triggered processes of change, when the NAB analysis has been used as the starting-point of internal discussions.

In addition to such general recommendations, the Bureau also gives specific recommendations that a set of regulations should be simplified or that the composition of a state grant system should be changed. In many cases, the NAB suggestions are taken up by government committees and are sometimes later proposed in government bills.

To what extent do the NAB reports also contain proposals for cost

cutting or financial savings? So far the NAB audits have been rather cautious on these matters. From the point of view of the audit (and the civil servant in general) it is more natural to ask how to get the most out of given resources rather than to fix a certain level of performance and then see if the resource input may be decreased. And when deficiencies in performance are discovered, the reaction has been rather to require more resources. Thus, there are not many examples of the audits highlighting possibilities for direct savings in the short run. Instead, we hope that our proposals and our analysis will, if accepted and acted upon, lead to a greater degree of cost-effectiveness in the long run.

In fact, a significant part of the present development of "system-oriented" auditing at the Bureau is to place greater emphasis on projects providing agencies and ministries with useful information concerning the policy area, rather than producing a set of specific recommendations.

In order to explain the meaning of this new idea of "system-oriented" auditing, it is important to review the short history of effectiveness auditing in Sweden.

Before doing so, I should mention that both the audit unit for procurement and that responsible for state fees and charges, frequently have a direct impact in financial terms, both in lowering costs and in increasing revenues.

## 5. History of effectiveness auditing in Sweden

When it was introduced in 1967, effectiveness auditing was perceived as supplementing traditional financial auditing. There was a strong agency-orientation and an ambition to cover the agencies at regular intervals (ideas that are essential in financial auditing).

Effectiveness auditing was also part of the "PPBS package" that was being introduced in Sweden at that time. The new system for planning, budgeting and accounting was named SEA, the Swedish Economic-Administrative system. It was intended to produce a major decentralisation of decision-making in the state public administration, something that in its turn pointed to a need for strengthening the capacity for external evaluation after economic decisions had been made. And the logical outcome of this line of reasoning was the creation of a new kind of audit "förvaltningsrevision" to be performed by the National Audit Bureau. Concurrently, financial auditing that had previously been a dominant concern of the Bureau was decentralised by the creation of the regional audit offices referred to above.

The actual development of effectiveness auditing began with a headlong assault on the effectiveness of agencies, based on a somewhat overoptimistic belief that effectiveness could be measured and analysed in terms of numbers, trends and the like. Relations with audited agencies were at first rather difficult - not all agencies were accustomed to the kind of external evaluation carried out by the

Bureau, and the indicators of effectiveness that were used as a basis for the NAB conclusions were sometimes rather simple.

Then came a "calmer" period. The effectiveness auditors settled for studying preconditions for effectiveness rather than effectiveness itself. They adopted the ideas of the on-going SEA-development which was being implemented by the other programme at the Bureau. For some time this was considered to be a sensible and a relevant approach to fulfilling the auditing task.

During the 1970s however, we gradually realised that the agency-by-agency approach was quite costly and was rather slow. The target of running effectiveness audits of central agencies at regular intervals proved difficult to achieve in practice. Another fact was that the level of "SEA-sophistication" grew perceptibly during the 1970s - the agencies were (grudgingly) coming round to heed the message from the two programmes at the Bureau.

Hence, in the Audit programme we began to sense a need for reorientation. Since then, this has produced two stages of further development of the concept of effectiveness auditing. First came the stage of selecting "focal areas", i.e. general problems that should be relevant in many policy areas and relevant for most public agencies. A set of such problems was set up with the intention that the audit units, in their choice of projects, would build on these focal areas. One of these areas has proved its worth - that of "results-and-effects". The meaning of this term is to evaluate the capacity of

agencies to follow up on their own activities, to evaluate effects of public policies, and to evaluate the current trends in the area they are responsible for.

We have now moved to yet another stage, with the development of "system-oriented auditing". One characteristic of this is that the audit analysis should take as its point of departure the policy programme and should focus on the benefits that the policy programme is intended to produce. In terms of recent audit work, this systems approach has been concerned with such examples as -

- a more modern and efficient fishing fleet
- a higher rate of completion of doctoral theses
- a decreasing number of people needing early retirement pensions.

The next step in the systems approach is to consider the total system, made up of clients and "street-level bureaucrats", local and central agencies in charge, and the various sets of measures, resources and regulations that make up a public programme.

In a sense, system-oriented auditing is completing a circle, as it means a re-emphasis on the programme aspect of the audit analysis (cf figure 1 above). However, the agency orientation also remains. As I mentioned above, we quite often "return" to a central agency after carrying out empirical work in the field. We present our analysis of the data and recommend steps that should be taken at the

agency level, to deal with the problems identified in the audit analysis.

The development of system-oriented auditing also entails greater efforts in terms of empirical investigations - systematic analysis of regional/local government units, large-scale data collection by means of questionnaires etc. This has in its turn produced some interesting shifts in the outcome of audits -

- greater emphasis on the Report providing decision-relevant information for use at the central government level
- more fundamental recommendations, sometimes even pointing to a need for changing policy and regulations (rather than reporting on deficiencies in the implementation of policy or on the lack of compliance with regulations).

## 6. Strengths and weaknesses

Finally, I will try to sum up what, in my view, seems to be strengths and weaknesses of effectiveness auditing in the NAB style. This personal view is based on my own experience at the Bureau since 1980, first at the audit unit for education and then transferring to a staff position concerned with the Audit programme as a whole.

By means of its effectiveness auditing, the Bureau succeeds in providing an independent perspective that quite often differs from the

conventional wisdom in a given "sector", (i.e. the audited branch of government). The risk of going native does not seem too serious at the moment.

But what about the opposite - not being native enough and failing to get accepted as a knowledgeable member of the policy area? My impression is that many audit units are quite successful in establishing the Bureau as a voice to be listened to. However, the high rate of personnel turnover creates problems here, both when it comes to finishing projects and to maintaining the sectoral expertise of the audit unit. So this means that each unit has its ups and downs in relation to the audited sector.

To continue the list of strengths, I think that the audit analyses compare quite favourably with the other species around - reports produced by public committees, memoranda produced by ministries, agency documents and reports produced by consultants and researchers. The quality of the NAB reports profits from three factors.

- there is scope for a significant degree of empirical groundwork
- the conclusions are in no way "preset", as they might be in a more political environment
- the Bureau and its audit units are relatively close to the events and processes within ministries and central agencies.

However, high quality usually entails another feature - projects take time. The period between the very first idea of an audit and the completion of a Report may be up to two years. Hence, the Bureau is not exactly in the business of "quick and dirty jobs." (In contrast, the Government is nowadays scrambling to get quick answers to solve the pressing problems of the Swedish budget deficit. Moreover they are looking for these answers in the work of the Bureau!)

This is in fact an important current dilemma because it creates two kinds of pressure that are in strong conflict with each other. On one hand, there is the reaction of the professional analyst: if the effect of your analysis might be decreasing service levels, depriving needy people of social support, putting public employees out of work, you must really do a very thorough and time consuming analysis. On the other hand, there is the external demand for quick answers. The need to stop the increasing budget deficit is acute, and the annual Finance Bill has to be finalised by January, regardless of the sensibilities of analysts.

It is too early to properly identify the deeper implications of this dilemma. Thus it is only quite recently that the Government has decided upon some really tough measures to counteract the growing budget deficit. And the development of effectiveness auditing is naturally a rather complex and long-run process in itself. What I have tried to give you is an outline of the first 15 years of effectiveness auditing at the Swedish National Audit Bureau. The

coming years will certainly entail some new interesting features.

NOTES

1. There is also an auditing body attached to the Swedish parliament called the Parliamentary Auditors, with a staff of 20.
2. The word 'effectiveness audit' is used here as a translation of the Swedish 'förvaltningsrevision'. Thus it incorporates aspects of economy, efficiency as well as effectiveness in a more specific sense.

## APPENDIX

List of NAB reports published in 1982/83 (only available in Swedish;  
acquisition number indicated in terms of Dnr)

Den statliga fiskeriadministration  
(Dnr 1981:406)

The State Fisheries  
administration

Tjänsteresor eller telefonmöten  
inom förvaltningen (Dnr 1982:359)

The savings potential of  
substituting telephone  
conferences for travel in the  
civil service

Styrning av arbetsmiljö forskning  
- en granskning av  
arbetarskyddsfondens forsknings-  
finansierande verksamhet och  
forskningsverksamheten vid  
arbetarskyddsstyrelsen  
(Dnr 1982:83)

Planning R&D projects in the  
occupational safety and health  
field

Effektiviteten i forskar-  
utbildningen (Dnr 1981:372)

The effectiveness of graduate  
study programmes.

Resultat och resurser i  
kulturminnesvården  
(Dnr 1982:283)

The state programme for  
"kulturminnesvård", i.e. the  
care of archeological remains,  
historic buildings and  
"surroundings" of cultural  
value

Uppföljningen av skyddsrum-  
produktionen (Dnr 1982:530)

The evaluation system for the  
construction of wartime  
shelters for civilians

Utvärderingssystemen i  
forsvaret (Dnr 1982:642)

Systems for evaluation and  
follow-up in the defence sector

Försvarets förvaltningsskola  
(Dnr 1982:827)

The Defence School of  
Administration

Förtidspensionering. Riksför-  
säkringsverkets tillsyn av de  
allmanna försäkringskassornas  
hantering av förtidspensione-  
ringen (Dnr 1982:1098)

Early retirement pensions.  
The National Social Insurance  
Board's supervision of the  
Social Health Insurance offices

Samhällets åtgärder mot  
narkotikamissbruk: Insatser,  
kostnader, mål och medel i  
narkotikabekämpningen (Dnr 1982:  
1114)

The system of social programme  
for fighting drug addiction:  
resources, costs, means and  
ends

Samlade effekter av skatter, avdrag, bidrag och avgifter - en granskning av förutsättningarna för en ökad kunskap om effekter av samhällets överföringar gällande barnfamiljer och pensionärer (Dnr 1982:155)

Statens arbetsgivarverk -roll och uppgifter i L-ATF-avtalets tillämpning (Dnr 1982:46)

SJs upphandling av varor och tjänster (Dnr 1980:149)

Upphandlingen vid rikspolisstyrelsen och statens kriminaltekniska laboratorium (Dnr 1982:877)

De statliga museernas uppdragsverksamhet (Dnr 1981:781)

Länsstyrelsernas expeditionsavgifter (Dnr 1981-1236)

The comprehensive effects of income taxes and related deduction rules, social allowances and charges for social services on the disposable income of households (families with children and old people respectively)

The National Agency for Government Employers - role in relation to the L-ATF system of local wage negotiations

Procurement of goods and services in the Swedish State Railways

Procurement by the National Police Board and the National Laboratory of Forensic Chemistry

The state museums: Charges for contractual services

The county administrations: Fees and charges

## ISSUES EMERGING

Professor J. J. Richardson

A number of issues arose during the discussion:

1. Expertise

The question of expertise, both within the organisations that are being audited and, interestingly, in the auditing organisations themselves, emerged as an important issue in our discussions. What particular skills are needed in the auditing process? For example, is the process largely the preserve of Accountants (and to a lesser extent Economists) or are wider social science (and in some cases science and engineering) skills needed? It was clear that Sweden tended to employ a different range of skills - with the social sciences being strongly represented - than seemed to be the case in Britain.

The question of training appeared to be a related issue. In the Swedish case, the National Audit Bureau performed a training function in that many of its auditors leave the Bureau for jobs in other parts of the public sector (and the private sector too). In this sense the NAB is supplying trained effectiveness auditors for the rest of the Swedish public sector. There appears to be a lack of any systematic training, in Britain, in the techniques of VFM and effectiveness auditing (insofar as these techniques have been developed at all) and

possibly a reluctance to share experience in the effectiveness auditing field. (Attention was, however, drawn to Vol. I of the CIPFA Local Government Value for Money Handbook, which contains over 35 reports of value for money studies. Volume II contains approximately 55 case studies from individual local authorities). A subsidiary issue, related to the question of expertise and training, was the question of "going native", i.e. should the evaluator be very expert in the particular policy area or does this risk his "going native"? The consensus was that it was important to include policy area experts in the evaluation/auditing "team", as without this detailed knowledge the final audit report would be vulnerable to criticism.

## 2. Publicity

Publicity for audit reports was seen as a significant issue. Whether we should have publicity, or how much publicity we should have, or what form the publicity should take, and the degree to which auditors should be direct in their criticisms, were all questions to which there was no easy answer. One argument is that if an audit report is heavily critical and is widely publicised, this can be dysfunctional to the audit as an aid to management - because heavy publicity might produce a very defensive reaction on the part of public sector managers. On the other hand, the audit process is also an essential element in the search for proper public accountability. In practice great skill is needed in drafting audit reports, if they are to be published and quoted by the media.

### 3. Performance Indicators

The question of performance indicators - particularly for services such as education and health - was seen as a singularly difficult question for the public sector. In the private sector there is, at least, bottom line profitability as an indicator of performance (though this is undoubtedly a very simplified view of the reality of the private sector). The development of performance indicators is perhaps the most important area for the development of techniques and for the sharing of experience. Are there techniques which can be adopted in all sectors? What role should the audited body itself play in the formulation of performance indicators? Are such indicators to be produced by a process of bargaining, by a process of consensus, or are they to be imposed by an outside body - such as central government in the case of the nationalised industries?

### 4. Evaluating Policy

A central issue for auditors is the degree to which they can question the actual policy when they assess efficiency and effectiveness. The more the auditor is involved in assessing effectiveness, the more he will be forced to assess the actual policy being implemented. At some point, if effectiveness is so low, he may be forced to ask whether the whole policy should be scrapped. The auditing process then becomes highly political.

## 5. Recommendations following an Audit

Another issue is whether the auditor should formulate detailed recommendations as part of his report, and whether the recommendations should be enforced by some outside body? Whose job is it to see that recommendations are acted upon? Is there to be a follow-up procedure, or is the task entirely for managers?

## 6. Comparative Studies

What is the value of comparative data in the auditing process e.g. costs of school meals in different local authorities? Can such studies be unfair to a given local authority, as the public merely notices that unit costs are lower elsewhere, without appreciating the reasons for cost differences?

## 7. Terms of Reference of Audits

Who should decide the terms of reference and how specific should they be? This is a particular problem for elected politicians because they often do not know what they want from an audit, other than a general assurance that "all is well in this or that agency!" They may lack the necessary information on which to formulate appropriate questions for an audit, without some preliminary filtration exercise to determine key issues and problems for further study.

### Time Scale of Audits

There appeared to be a marked contrast between British and Swedish experience in terms of the time taken for VFM and effectiveness audits. Many UK studies seemed to be given very little time and amounted to "quick and dirty" studies. The worrying aspect of this phenomenon is that it could undermine the whole VFM/effectiveness audit process by producing weak reports, easily discredited.

### The State of the Art

Finally, there was a widespread recognition that, though VFM had a reasonably long history, there was a considerable need for more development, particularly in the more "difficult" policy areas. Effectiveness studies seemed to be at a very rudimentary stage and Britain appears to be at a very early stage in the learning process. There was a clear need for greater collaboration between different types of public authorities and between public and private organisations, and for a much greater effort to develop our knowledge of the practical development of the audit process in the direction of VFM/effectiveness studies. Whatever the current "state of the art" it was generally agreed that those of us in the public sector had to learn to live with the strong climate of opinion in favour of more evaluation.