PERFORMANCE AUDIT IN THE UK: KEY FACTS AND CHALLENGES

Aleksandra Rabrenović, PhD[1]

Abstract

The objective of the paper is to analyse the key facts and challenges related to carrying out performance audit in the UK. The author examines the operation of the National Audit Office and the Public Accounts Committee in conducting performance audit studies and problems which they have experienced with the executive since they moved further away from the account-based approach and have found their higher profile role examining value for money of Government programmes. The author concludes that although conducting performance audit in UK is a well-established exercise, several challenges still remain to be overcome. These are primarily: reluctance of NAO to assess effectiveness of the use of public funds; an excessive clearance of the NAO reports with auditees and possibilities for improved level of implementation of the NAO and PAC findings. At the end of the paper the author proposes several recommendations on how the existing challenges may be overcome, which include a need for attracting additional public interest in the performance audit reports findings, in order to ensure their implementation and safeguard the use of the UK taxpayers' monies. The author also proposes an establishment of the special parliamentary committee, modelled on the UK PAC in Serbia and other countries in the region in order to improve the follow up of the SAIs findings.

Key words: *National Audit Office, Public Accounts Committee, performance audit, UK*

1. Introduction

Over recent decades, performance audits, often referred to as "value for money" audits, have become common in the public sector in Europe. Performance audit could be defined in different ways, but generally denotes the obligation of public bodies to make the best use of the resources at their disposal and obtain three Es – economy, efficiency and effectiveness. All EU member states carry out performance audits, with the exception of Greece (NAO, 2005; Tiron, 2007). Although

[1] Research Fellow, Institute of Comparative Law, Belgrade, Serbia.

for some performance audit is a relatively new development (e.g. Portugal), in other countries performance audit has a quite a long tradition (e.g. Germany, since XIX century). In Anglo-Saxon countries, performance audit came to the limelight with the introduction of New Public Management ideas that emerged in late 1970s and early 1980s, which led to considerable transformation in public sector management, including the area of public sector audit (Pollitt, 2003).

Performance audit of the use of public funds in the United Kingdom is carried out by the National Audit Office (hereinafter NAO), whose audit findings are followed up a prominent parliamentary committee - Parliamentary Accounts Committee (hereinafter PAC). The NAO is the supreme audit institution of the UK,[2] headed by the Comptroller and Auditor General (C&AG), who is the officer of the House of Commons and thus reports to the Parliament. The key accountability link between the Parliament and the Executive is established through the work of the PAC, which, supported by the work of the NAO, detects irregular and improper expenditure and investigates performance in the use of public funds, by calling government officials to account for the use of public money. NAO and PAC are highly influential bodies within Government and wider society due to their high media profile.

This paper shall examine the key facts related to carrying out performance audit in UK and the challenges which the NAO and PAC have experienced with the executive since they've moved further away from the account-based approach and have found their higher profile role examining value for money of Government programmes. As seen from the executive, the NAO has been pushing at the frontiers of its remit and encroaching on policy issues, which should be discouraged. This has provoked substantial problems when conduct of value for money assessments is in question.

Methodology of the paper is based on combining normative and socio-legal method. Normative method provides a good basis for understanding the legal framework setting for performance audit. However, as institutions and norms represent just a part of the broader social background, they cannot be analysed isolated from their social context (Kokkini-Iatridou, 1986). Therefore, in order to provide a better understanding of the operation of performance audit considerable attention has been paid to analysis of respective social environments through the research of available academic and expert literature in this field. The sociological interpretation has also provided a ground for critical assessment of carrying out performance audit in UK and

[2] Since 1999 devolution, Scotland, Wales and Northern Ireland also have their audit offices.

has helped opening up debate for challenging the existing settings and practices.

The paper is structured in several parts. The first part of the paper analyses the legal status and management structure of the NAO in order to provide a broader background for analysing the conduct of performance audit. In the central part of the paper focus is laid on performance audit criteria and different phases of performance audit process. Special attention is paid to problems which the NAO has experienced with the assessment of the "third E" - effectiveness of the use of public funds. This will be followed by closer investigation of the follow up of the performance audit findings, carried out by the PAC and Parliament. Finally, the paper shall attempt to provide recommendations on how performance audit of the use of public funds can be improved in the overall UK context of financial accountability and point out the lessons that Serbia and other countries in the region can learn from the UK case.

2. Status and Management Structure of the NAO

The status of the NAO is governed by several acts of parliament: the 1866 Exchequer and Audit Departments Act, the 1921 Exchequer and Audit Departments Act (which repealed and amended most of the provisions of the 1866 Act), the National Audit Act of 1983, the Budget Responsibility and National Audit Act of 2011 and the Local Audit and Accountability Act of 2014.

The independence of the C&AG against the Government is strongly embedded in the legislation. Thus, subsection 1(2) of the 1983 Act establishes the status of the C&AG as an officer of the House of Commons. The C&AG is appointed by the Queen and can only be dismissed by the Queen before his/her term of office expires, on an address from both Houses of Parliament. Subsection 1(1) requires the agreement of the Chairman of the Committee of Public Accounts to the appointment of the C&AG, which additionally secures independence of the C&AG since the Chairman of the PAC is always a member of the opposition. Finally, functional independence of the C&AG is provided by subsection 1(3) of the NAO 1983 Act, which gives the C&AG complete discretion in the discharge of his/her functions concerning value for money studies. However, an important consequence of the granted independence from the executive is that the NAO is not authorised to examine the merits of government policies in its performance audits, but has to limit itself to assessing how well these policies have been implemented (Dunleavy et al., 2009).

The NAO is accountable to Parliament through the Public Accounts Commission. The Commission is responsible for the approval of the NAO's strategy and setting the NAO's budget, appointing the non-executive members of the board and appointment of the external auditor of the NAO (NAOa, 2015). The Commission comprises nine MPs, including the Leader of the House of Commons and the Chair of the Public Accounts Select Committee, who serve *ex officio*. The remaining seven, who may not be Ministers of the Crown, are chosen by the House of Commons.

It is interesting to note that the management of the NAO significantly changed in 2009, from a single headed body to a corporate management structure. The NAO's new governance structures reflected the need to balance the independence of the C&AG with respect to audit judgment, with the need to demonstrate that the NAO practices what it preaches through the exercise of proportionate and independent oversight and controls of its own operations (NAOa, 2015). This change was prompted in 2007 after a large amount of media interest in the travel and subsistence expenses of the C&AG, after which the Public Accounts Commission decided to review the management structure of NAO, to ensure that it followed best practice (Dunleavy et al., 2009). The Public Accounts Commission recommended the creation for the first time of an NAO Board,[3] on which the C&AG would sit as Chief Executive, with a non-extendable term of 10 years, in order to prevent the association of NAO with one particular C&AG for too long a term. These solutions were put on a statutory footing by the adoption of the Budget Responsibility and National Audit Act 2011, which entered into effect in 2012.

The NAO does not have the status of a government department and its staff are placed formally outside the civil service. The C&AG is given a wide discretion regarding the staffing of the NAO. Subsections 3(2) and (3) of the 1983 Act give the C&AG the authority to appoint such staff as he/she considers necessary for assisting him/her in the discharge of his/her functions, on such remuneration and other terms as he/she may determine. Although the placement of the NAO staff

[3] The role of the NAO board is to provide effective support and challenge in improving the NAO's operations. The board has nine members, of which a majority (five) are not employees of NAO (non-executive members), while three are employees of NAO (employee members) and the final member is the C&AG, as defined in the section 20 of the Budget Responsibility and National Audit Act. The non-executive members are appointed by the Public Accounts Commission, with the exception of the chair, who is appointed by the Queen, upon the recommendation of both the Prime Minister and the chair of the Committee of Public Accounts. This ensures that the nonexecutive members are independent of the NAO's management, and that the chair has the confidence of both the government and opposition in Parliament.

outside the civil service undoubtedly underlies the independence of the NAO staff towards the executive, it may be argued that C&AG`s authority over its staff is too wide and could lead to administrative instability. It therefore may be argued that more stability and possibly higher quality of work would be attained by giving the NAO staff the privilege of civil service tenure. This need is reflected in the part 5 of Schedule 2 of the Budget Responsibility and National Audit Act, which states that in determining the terms of employment of its staff, NAO should have regard to the desirability of keeping the terms broadly in line with those applying to civil servants.

The Office's audit staff are recruited as university graduates. At least an upper second class honours degree is required for entering the service. Graduates are trained as professional accountants. The Office employs around 800 staff, most of which, are professionally qualified accountants, technicians or trainees (NAO, 2015). NAO also employs other specialists, such as economists, statisticians, corporate financiers, operational research specialists and sectoral specialists, which are often employed on short-term contracts, particularly for conducting performance audit studies (White, Hollingsworth, 1999; Dunleavy et al*.,* 2009).

As in other European SAIs, there are two basic strands of C&AG's work within its auditing role:[4] financial audit and performance audit or value for money audit. These two functions are closely interlinked, since findings in financial audit can provide a basis for value for money audit and *vice versa* (White, Hollingsworth, 1999). However, financial audit and performance audit are generally perceived as distinct disciplines, and are performed by NAO as strictly separate exercises.

The NAO's jurisdiction with regard to carrying out performance audit has continuously been widening. In addition to Government departments, executive agencies and non-Governmental public bodies, the Local Audit and Accountability Act 2014 gave the NAO new powers and responsibilities with regard to local government spending,

[4] It should be noted that in addition to the auditing role, the C&AG also has a role of Comptroller General, which assumes the authority to issue public funds from the Consolidated Fund and the National Loan funds to Treasury, which then distributes it to government departments and other public sector bodies. The Comptroller function is essentially an *ex ante* checking, or financial control function. It is quite interesting that the C&AG has retained this *ex ante* checking role, which is one of the main features of some other supreme audit institutions in Europe (e.g. Italian Corte di Compti, which performs ex ante control of issuance of all public funds). However, it should be noted that this C&AG's function, in comparison to other European Supreme Audit Institutions, is quite restrictive and relates largely to checking of whether the requested amounts conform to the ambit of respective votes.

including preparing and consulting on the Code of Audit Practice.[5] Under the Act, the NAO has powers to examine the efficiency and effectiveness of central government expenditure, including local bodies' use of resources and can provide evaluation, commentary and advice of a general nature to local bodies.

3. Performance Audit Criteria, Phases and Challenges

Although it is often argued that the C&AG concern for issues of economy, efficiency and effectiveness has for quite some time constituted a part of public sector auditor's responsibilities (Dewar, 1985), the existing practice of performance audit was formally recognised only relatively recently, by Part II of the 1983 Act. Thus, Section 6 provides that the C&AG may "carry out examinations into the economy, efficiency and effectiveness with which any department, authority or other body to which this section applies, has used its resources in discharging its functions."

Conducting performance audit represents a shift from accounts based approach and financial audit that was the main function of the NAO before the adoption of the 1983 Act. Although the NAO did conduct studies which had elements of performance audit before 1983, the pressure for substantial reform of the public audit system grew from the 1960s, following concerns expressed by academics and Parliamentarians that the scope of public audit, which at that time covered only around half of public expenditure, needed to be substantially extended. These pressures intensified during late 1970s and early 1980s when a set of doctrines of the group of ideas known as New Public Management emerged in Westminster countries, with the primary focus on increasing the values of efficiency and effectiveness in the use of public funds (Hood, 1991). In this sense, it was argued that there was a need for a specific power to allow the C&AG to report to Parliament at his own discretion on the value for money achieved by government departments (White, Hollingsworth, 1999).

Over the past three decades, the NAO has produced around 40-60 performance audit reports a year on selected issues and policies. These studies typically take six months to a year to complete. They cover a wide range of topics, such as the National Health Service and major defence projects and increasingly focuses on local services including those delivered by local government (NAO, 2015b).

[5] The Code of Audit Practice sets out what local auditors of relevant public bodies are required to do to fulfil their statutory responsibilities under the 2014 Act.

The NAO uses three key criteria to assess the value for money of government spending i.e. the optimal use of resources to achieve the intended outcomes:

- Economy: minimising the cost of resources used or required (inputs) – spending less;
- Efficiency: the relationship between the output from goods or services and the resources to produce them – spending well; and
- Effectiveness: the relationship between the intended and actual results of public spending (outcomes) – spending wisely (NAO, 2015c).

In addition, the NAO reports that besides these three 'E's, a fourth 'E' - "equity" is applied in some cases. The equity criterion applies to the area of provision of public services and examines the extent to which services are available to and reach all people that they are intended to – spending fairly. This criterion thus assesses whether some people may receive various levels of service for reasons other than differences in their levels of need (NAO 2015c), which results in intentional or unintentional unfair treatment of individuals or groups in the provision of public services. NAO explains the cases in which the equity criterion would be jeopardized:

- The cost and level of provision of a service is more for one group of people than that for another group of people with similar needs;
- Some people cannot reach, see, hear or use a service;
- The service may be unsuitable for some people's specific needs;
- A service is provided in a language that some people do not speak or terms they do not understand; or
- Some people are unaware that the service is available to them (NAO, 2015c).

When an auditor conducts performance audit he/she would be seeking to evaluate the extent to which the audit subject is economic, efficient, effective and possibly equitable. All four should be judged together, otherwise an organisation could be very efficient doing the wrong thing (being efficient and not effective) or could get great results by providing services to one group of people while neglecting the needs of another group (being effective but not fair).

It should also be noted that NAO's performance audit is not always an ex-post assessment, as it in case of audit of larger projects NAO carries out review on how the project is being delivered, before its completion (Barker et al., 2014). This is particularly the case for significant infrastructure investments, when a series of value for money assessments are conducted. These performance audits focus on how the programme is being delivered, in terms of the planning, procurement or construction phases of infrastructure projects (Barker et al., 2014).

Although each study is unique, several stages in the production of performance audit reports can be discerned, the first one being a research and study selection. Topics are identified by audit staff from close monitoring and analysis of the risks to value for money across various public services, the resources at stake, the impact of the programme on the citizens and whether a NAO report could help to make a difference. The NAO has interest in both examining the successful programmes, and identifying factors contributing to success as well as investigating those programmes that have not been so successful (NAO, 2005). A study can also originate from other sources, including members of the Parliament, departments themselves, or the public (White, Hollingsworth 1999). Furthermore, the background and experience of the auditors are likely to influence the choice of the topic and the perspective from which the performance audit will be conducted (Lonsdale, 2000).

The Public Accounts Committee has a particular statutory role in relation to study selection. Section 1(3) of the 1983 Act provides that in determining whether or not to carry out a value for money study, the C&AG must take into account any proposals made by the PAC. After the initial identification of the study and approval by the C&AG, full investigation can be undertaken.

After the appropriateness of the study is determined a business case for review is drafted. The business case contains the background motivation for carrying out of the study, intended scope, expected recommendations, impact and risks. Once the business case gets approval within NAO, it is sent to a public body in question to negotiate its consent (Dunleavy et al*.,* 2009).

The following stage in the audit process is a production of a draft report, which is based on a specially designed analytical framework. The draft report is produced by the audit team,[6] and is based on following steps: 1) determining the objective of examination 2) identification of what are standards of good performance in a particular case, while taking into account the broader background and existing constraints

[6] The audit team usually comprises one director, one audit manager and one or two principal or senior managers.

3) assessing the actual performance against the good performance standard (Barker et al., 2014).

Once the report is completed, the phase of presentation and consultation with the auditee begins, in a so-called "clearance process." The objective of the clearance is to reach an agreement between the NAO and auditee on the facts of the case, making sure that both sides agree that all materials and relevant facts have been included in the report and that their presentation was fair. This convention was formalized following a Committee of Public Accounts hearing in 1986 when the NAO and auditee (Department of Education and Science), disagreed on the facts of the performance audit report. The PAC refused to mediate between the NAO and departments and asked for process to be reviewed and agreement on facts to be made (Keen, 1999).

Clearance process can be rather difficult and time consuming and can result in not fully objective final report. At the beginning of the consultation process, the NAO produces a draft report, which may find serious and not easily fixed flaws in management of public funds. A Department's staff often counter the NAO's draft findings, sometimes by producing a third-party report which claims that there are no serious defects (Ritter, 2007). The NAO's staff may have doubts about the third-party report's independence and true statement of facts and can either accept or dispute it. However, as the NAO staff usually try to avoid confrontation, it is likely to accept a department's views at least to some extent and to lessen the criticism of its own report (Ritter, 2007). Furthermore, since the NAO staff have rather tough time constrains when producing performance audit reports, they are also motivated to complete them within the planned time periods, as timely completion is one of the basis for obtaining performance related pay increments (Dunleavy et al., 2009). As a result, the final NAO reports are often much less critical than the original ones. Although the consultation process is not open to public, it sometimes emerges through Freedom of Information Act requests that earlier NAO drafts had been considerably tougher than the final report (Bacon, Hope, 2013). It can also happen that there are multiple redrafts where usually stronger criticism in the NAO's report is rephrased to a more vague statement or proposal for improvement (Dunleavy et al., 2009), which can lead to reducing the objectivity of the whole performance audit process. If it is not possible to reach a common ground, both views can be reflected in the report, which is, however, not that common. The last phase is publication of the performance audit report, which will include recommendations to the auditee.

It should be noted that as the NAO has moved further away from the account-based approach and has found its higher profile role examining value for money of Government programmes, it has experienced some problems in relationships with the executive. After some initial misunderstanding of what was expected, efforts have been made to work out acceptable forms of words going beyond the purely factual element in a report (White, Hollingsworth 1999).

Special tensions have been created with respect to conducting the value for money studies which assess the effectiveness in the use of public funds. It has been argued that among all "Es"- effectiveness, concerned with the extent to which outputs of goods or services achieve policy objectives, has the greatest potential for bringing about change and saving public funds, while maintaining the quality of service provision (Gordon, 1998, Glynn, 1985). However, when the NAO wants to assess the effectiveness it need to first determine the policy objectives, which is often not an easy task. Objectives of government policies are often vague and ambiguous, and even more so is the measurement of their achievement (Pendelbury, Shreim, 1990). On the other hand, as seen from the executive, the NAO has been pushing at the frontiers of its remit and encroaching on policy issues, which needs to be strongly discouraged, since the NAO does not have authority to question policy objectives. Since policy decisions-making is in exclusive competence of the executive, any interference of the auditor in policy matters is deemed unacceptable and is forbidden by the 1983 Act. The subsection (2) of the 1983 Act prohibits the C&AG from questioning the merits of the policy objectives of any department, authority or body in respect of which an examination is carried out. As a result of such a "slippery slope" between determining whether the policy objectives were properly set out in the first place (which is the responsibility of the executive) or whether they were properly implemented (which is the responsibility of the NAO), NAO has been reluctant to enter into this discussion and carry out effectiveness reviews.

Furthermore, NAO has been criticised to be too reluctant to address its findings to an auditee in an open and disapproving manner when examining whether public bodies have achieved value for money for the use of allocated resources and provision of more detailed recommendations on how to overcome the pending challenges. NAO reports have been criticised to be too "soft" and hence sometimes miss big issues that could not generate large-scale savings (Dunleavy et al., 2009).

One of the key problems in this respect is that NAO's reports, as mentioned earlier, have to be extensively cleared with the audited bodies concerned. This procedure can take quite a long time and involve lots of compromise (Dunleavy et al., 2009). After a lengthy clearance process, NAO is often forced to tone down its criticism and provide general and polite assessment and recommendations in order to achieve the common understanding of the issues with the auditee (Roberts, Pollitt, 1994; Dunleavy et al., 2009), which greatly limits its potential.

Furthermore, the explanation of NAO's not sufficiently strong and independent position when conducting value for money investigations may also be sought for in the ultimate dependence of the NAO on the Public Accounts Committee and Parliament. Although NAO's independence towards both Parliament and PAC is constitutionally supported, NAO's position of "Parliamentary assistant" requires him to pay attention to the needs of its main audiences, members of the PAC and Parliament. In this sense, NAO has to make sure that its reports will, firstly, raise interest of the members of the PAC, otherwise their usefulness could be put in question. NAO is thus criticised for conducting "headline hunting" studies, which would undoubtedly attract PAC's attention, instead of producing more demanding reports, based on complex societal issues. Secondly, and more importantly, NAO's work is constrained by its need to balance opposing views on more sensitive political issues, taking care not to provoke partisanship among its "political" audience (Roberts, Pollitt, 1994), as will be discussed in more detail in the following section.

4. Follow Up on Performance Audit Findings – The Role of the PAC

A key weapon of the parliament in overseeing the public spending is the work of its most senior and most formidable committee, the Public Accounts Committee. Its role is to examine whether public money voted by Parliament has been spent in accordance with Parliament's intentions, and with due regard to not only issues of regularity, propriety, but also value for money. Work of the Public Accounts Committee is substantively supported by the NAO, without whose professional assistance the Committee's control would be almost impossible. On the basis of the NAO reports, the Public Accounts Committee calls officials to account for misuse of public money and reports its findings to the House of Commons. The Committee's reports and the government's responses to them are debated in an annual debate in the Commons and may be raised by MP's at other times.

The PAC is the senior select committee of the House of Commons, with almost a century and half long tradition. It was established in 1861 by Standing Order 122 (now standing order 148). The PAC consists of fifteen Members of Parliament, selected proportionally to the composition of the House. The work of the Committee is to be non-partisan. Impartiality and independence of the Committee is partly secured by the constitutional convention that the President of the Committee is always a member of the opposition. The Committee carries out its investigations based on the accounts, reports and memoranda presented to Parliament by the C&AG. After examination of senior public officials responsible for the expenditure or income under examination, PAC produces its own reports, in which it sets out its recommendations to the public body in question (Redlynch, 2001).

The majority of PAC's hearings and reports are based on performance audit examinations (Dunleavy, 2009). The PAC does not nowadays spend much time on matters of financial irregularity or constitutional impropriety. Most of the PAC's work is based on the C&AG value for money reports on financial management, which are conducted in the areas of trade, industry, agriculture, overseas services, transport and health as well as various other public services.

The choice of the study depends on the nature of the Government's actual programmes, likely interest of the subject to the Committee and the prospect of useful recommendations for improvement arising from their inquiries (White, Hollingsworth, 1999). The PAC usually decides on which case it will choose for further investigation on the basis of the briefing by the NAO and any independent research that a particular member may undertake. The members of the Committee are not individually in charge for any specific portfolio according to their particular interest or expertise, but are responsible for every NAO report. However, personal interest and expertise of members can have important impact on the choice of the case examined.

In order to discuss the findings of its reports, PAC invites witnesses to the hearing. The accounting officer (usually a Permanent Secretary) of the respective public body in question is the main witness at the hearing. In addition to an accounting officer, the PAC can call anyone else to appear before it, except ministers (White, Hollingsworth, 1999). The PAC also invites the C&AG and Treasury Officer of Accounts, or their deputies, to attend every hearing.

It may be argued that the proceedings conducted by the PAC are of a quasi-judicial nature, since witnesses have been put in the position of defendants and are called to account for their actions (Molnier, 1976). However, although the Committee can invoke personal responsibility of the accounting officer, it has lost a formal power to impose sanctions on him/her. Sanctions available to the PAC are mainly of an informal nature, which, interestingly enough, does not undermine its effectiveness.

Unanimity in the work of the PAC is seen as very important for its effective work. The standard practice is that there must be unanimous support within the PAC for a report before it can be published. This is due to the fact that a unanimous report very much adds strength to the Committee's influence (White, Hollingsworth, 1999). The PAC report will encompass the recommendations of the Committee, based on the hearing.

There is, of course, no automatic route for the implementation of the PAC's conclusions and recommendations. The Government responds to the PAC's report in the form of a Treasury Minute issued as a White Paper, which explains how it intends to follow up the committee's suggestions (White, Hollingsworth, 1999). This is published usually 2-3 months after the PAC report and it outlines which of the PAC's recommendations the government accepts and will act on, and those which it simply notes (that is, which will not be acted on). Departmental replies to the Committee's reports and recommendations thus provide quite a good evaluation of the impact which PAC has on the government administration. If the department or body in question does not accept any PAC recommendations, the Committee can return to the issue at some later point (Dunleavy et al., 2009). If the PAC is not satisfied with the Government's response, it may make further investigations and hence produce another report, which happens in practice only rarely.

Although the PAC has the reputation of being one of the most formidable and successful parliamentary committees, its role in the control of public expenditure is undoubtedly limited and its achievements are not often spectacular, which poses concerns for implementation of NAO findings (Landers, 2000). One criticism is that PAC reports are published long after the event in question, when those responsible are no longer in the department and, thus, cannot be called to account (White, Hollingsworth, 1999). PAC is also sometimes criticised for lack of willingness to get into the true substance of the presented case, trying instead to "grab the headlines" and attract the audience of the MP's (Landers, 2000). Some officials consider PAC too critical of any failures, however small, even in cases when projects were generally successful. Furthermore, it has been suggested that the fear from PAC`s censure discourage officials from considering more innovative projects (Redlynch, 2000).

Although all the mentioned shortcomings in the work of PAC certainly have some weight, they should not be overestimated. Although in general the Committee attracts little attention in Parliament and its modern role is not as influential as its nineteenth century role of setting good public-sector accountancy practice, its reports do get quite wide publicity and certainly have a strong impact on public bodies' financial decision-making and accountability (Dunleavy et al., 2009). Delays in reporting could also not be taken as serious shortcoming, especially that the PAC, accustomed to work within the framework of an annual timetable, completes its inquiries and presents its reports more speedily than a number of other parliamentary committees (Dunleavy et al., 2009). The criticism related to expertise and neutrality of PAC members, however, should not be too easily dismissed. It may well be the case that the PAC reports are made with the attempt to attract attention of the Parliament as well as wider public as their key audiences, and therefore tend to overemphasise certain shortcomings, while not addressing less visible and more delicate administrative weaknesses.

Finally, the key limitation of the PAC lies in its limited human resources. As mentioned earlier, PAC has only fifteen members, who hold two hearings per week when Parliament is in session. Fifteen Members of Parliament cannot handle the abundance of auditors work in modern times. The NAO already produces more reports than the PAC can examine. This poses considerable challenges to the members of the PAC, to select the most important studies within NAO's scope of work and communicate them in the most effective way to the Parliament, media and wider public.

5. Conclusion

Performance audit in UK is a well-established exercise, which has been carried out by the National Audit Office for assessing whether the UK central Government funds have been spent in the most economic, efficient, and effective and fair way. Most of the conducted audits in the UK are nowadays focused on the achievement of the value for money in the use of public funds, rather than pure financial audit, which is usually not at all subject to dispute.

Several challenges still remain to be overcome in order to improve the existing performance audit practices. The first one is to encourage the NAO to assess the effectiveness of the public spending and make sure that it receives all necessary information necessary for conducting effectiveness reviews. Although it is not disputed that an auditor should not judge the policy objectives, he/she has to be allowed access to all documents related to policy objectives, in order to establish the policy aim and hence assess whether it has been achieved.

The second is the issue of excessive clearance of the NAO reports with auditees, which reduces the sharpness of the NAO reports and results in missing opportunities for savings in public spending. In our view, the existing convention that NAO's reports should be fully cleared with the auditees should be reconsidered as it weakens the position of the NAO and reduces its independence in carrying out performance audit work.

The third important challenge that needs to be addressed is how to secure and strengthen the level of implementation of the recommendations of the NAO and PAC, especially given the limited human resources of the PAC. Possible ways forward in this respect could be subdivision of the PAC to subcommittees or delegation of PAC`s work to departmentally related select committees. Furthermore, it is advisable that PAC focuses its attention on broader, crosscutting issues common to various sectors and bodies and not be concerned with minor matters and processes. Alternatively, PAC could still get involved with examination of issues of lesser importance, but would not need to hold oral hearings on them. This would also help dismiss the arguments that PAC focuses too much attention on smaller failures and thus discourages innovation. A further step would be to give NAO and PAC reports even wider publicity in the media and thus increase the pressure of the public on the Government. Although this influence has up to now been considerable, it is essential that the public be informed of performance audit findings timely and extensively. Therefore, it may be concluded that in a long run, the effectiveness of carrying out performance audit and implementation of its findings will depend not only on the expertise and quality of the NAO and PAC's work, but even more on the general climate within which they work, i.e. the general level of the interest of the UK tax payers on the Government use of their monies.

Finally, the question that could be posed is what Serbia and other countries in the region can learn from the UK experience of performance audit? As performance audit is only in the nascent phase of development in Serbia and in most countries in the region, Serbian SAI would most certainly benefit from learning about different phases through which the NAO conducts performance audits, from the identification of the performance audit study to the drafting of the audit report. The UK case also teaches about the dangers of excessive clearance of the supreme audit institutions reports with the executive, which can reduce the sharpness of arguments and fail to detect waste in the use of public money. Another important point is to take into account an internationally accepted rule that, while undertaking a performance audit, supreme audit institutions (due to their independent status) should not question or debate a purpose of policy objectives set in legislation or in government programmes. The UK case shows that it is fairly difficult to draw the line between questioning of the purpose of policy objectives and its implementation, which should not, however, deter auditors from conducting important audits of effectiveness. Lastly, the UK case has lots of food for thought to offer with regard to the example of on how the findings of the SAI's report should be followed up by the Parliament and its committees. As pointed out earlier in the text, the UK PAC is one of the most prestigious UK parliamentary committees, which deals only with issues of economic, efficient, effective and equitable use of public funds. In this sense, it would be advisable to establish a special parliamentary committee in the Serbian National Assembly and parliaments of other countries in the region, which will deal solely with holding the executive to account for the stewardship of the limited public funds. Once the committee is established, it is recommended that it starts conducting its own investigations based on the findings of the SAI, just as in the UK case. The findings of both SAI and the designated parliamentary committee should be distributed by media as widely as possible in order to increase the pressure of the taxpayers on the executive to achieve a high value in the use of their monies.

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