



Performance audit as a tool oriented at the accountability of public finance spending in Poland against the background of UK practices

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Abstract

In recent years, public finance spending in Poland has been subject to citizens' critical assessment. It forces public finance sector units to introduce tools that will enable the effectiveness of actions within this area to be scrutinized. The performance audit, a new idea of auditing oriented at performance, provides such a tool. At the same time, a chance to introduce accountability to Polish public finance sector entities appeared. The aim of the article is to determine the role and usefulness of performance audits for the effective management of public finances by public finance sector units in Poland with reference to British practice in this area. In the article, the author attempted to answer the question about what the perspective of performance audit development is in Poland in the next couple of years. To achieve the goal, the author used an analysis of the Polish and foreign literature on the subject, an analysis of legal instruments of internal audit, the comparative analysis method, and benchmarking (modelled on the British practice, the author indicating the implications connected with implementing performance audits in public finance sector units in Poland as well as mentioning legal-economic loopholes that should be closed in order to raise the effectiveness of performance audit in public finance sector in Poland). The author's conclusions are based on deduction. Considering the experience of Great Britain, one may think that the role of the performance audit in Poland will grow along with the development of managerial control within public institutions, causing the rationalization of public finance spending. The aspects that should be complemented in the scope of the performance audit include: cyclical, not short-term, control of the use of public finances by government institutions, and acknowledging this tool as an obligatory element of management.

Keywords: internal audit, effectiveness, performance audit, public expenditures, accountability.

Streszczenie

Audyt efektywnościowy jako narzędzie ukierunkowane na rozliczalność wydatkowania środków publicznych w Polsce na tle praktyk Wielkiej Brytanii

W ostatnich latach wydatkowanie środków publicznych w Polsce w sposób restrykcyjny poddawane jest ocenie obywateli. Powyższe wymusza na jednostkach sektora finansów publicznych wprowadzenie narzędzi, które umożliwiają zbadanie skuteczności działania w tym obszarze. Taką możliwość daje audyt efektywnościowy, który stał się nową koncepcją audytu ukierunkowaną na osiągane wyniki. Pojawiła się

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jednocześnie szansa na wprowadzenie rozliczalności podmiotów sektora finansów publicznych w Polsce. Celem niniejszego artykułu jest określenie znaczenia i przydatności audytów efektywnościowych dla racjonalnego gospodarowania środkami publicznymi przez jednostki sektora finansów publicznych w Polsce, z odwołaniem się do praktyk brytyjskich w tym zakresie. W artykule podjęto próbę odpowiedzi na pytanie, jakie są perspektywy rozwoju audytu efektywnościowego w Polsce w ciągu kilku najbliższych lat. Do realizacji przyjętego w artykule celu wykorzystano następującą metodykę badań: analizę literatury polskiej i zagranicznej w przedmiotowym zakresie, analizę aktów prawnych w obszarze audytu wewnętrznego, metodę analiz porównawczych, *benchmarking* (wzorując się na praktykach brytyjskich, wskazano na implikacje związane z wdrożeniem audytów efektywnościowych w jednostkach sektora finansów publicznych w Polsce oraz zidentyfikowano luki, które należy ewentualnie uzupełnić w celu podniesienia skuteczności audytów efektywnościowych w jednostkach sektora finansów publicznych w Polsce). Wnioskowanie przeprowadzono z zastosowaniem metody dedukcji. Na podstawie doświadczeń Wielkiej Brytanii można sądzić, że rola audytów efektywnościowych w Polsce będzie rosnąć wraz z rozwojem kontroli zarządczej w instytucjach publicznych, powodując racjonalizację wydatkowania środków publicznych. Uzupełnienia w zakresie skuteczności audytów efektywnościowych wymaga między innymi uznanie tego narzędzia jako obowiązkowego elementu zarządzania, a nie jako obowiązku ustawowego czy też poddawanie cyklicznemu, nie zaś doraźnemu badaniu wykorzystanie środków publicznych przez instytucje państwowwe.

Slowa kluczowe: audyt wewnętrzny, efektywność, audit efektywnościowy, wydatki publiczne, rozliczalność.

Introduction

Public finance has always been an area of popular interest because of its practical dimension, which portrays the relationship between a state and society. In recent years, effective management of public finance has been more and more often emphasized, because it is the area which is subject to citizens' critical assessment.

The above observations mean the need to implement adequate tools in the public finance sector units in order to support the assessment process of actions carried out by the management of the public sector units in Poland.

One solution to this problem was the implementation of internal audit to some units of the public finance sector in 2002 in Poland (the Act on the Change of the Public Finance Act ..., 2001, sec. 35), which was a response to the requirements of the European Union in the scope of the need to protect the correct utilization of public funds by units belonging to the public finance sector.

Within 12 years of its introduction, the form of Polish internal audit has changed several times, from a compliance audit to a performance audit. The latter has become the new idea of auditing in the units of the public finance sector, aimed at the achieving the best results. It consists in carrying out a cause and effect analysis, which is a key to the assessment of the results made by a unit. At the same time, a chance to introduce accountability to Polish public finance sector entities appeared, so that the society is assured that public finances are wisely spent.

The aim of the article is to determine the role and usefulness of performance audits for the effective management of public finances by public finance sector units in Poland, with reference to British practice in this area. In the article the author attempted to answer the question what the perspective of performance audit development is in Poland in the next couple of years. To achieve the goal, the author used an analysis of the Polish and foreign literature on the subject, an analysis of the legal instruments of internal audits, the comparative analysis method, and benchmarking (modelled on the British practice, the author indicating the implications connected with implementing performance audits in public finance sector units in Poland and also mentioning legal-economic loopholes that should be closed in order to raise the effectiveness of the performance audit in the public finance sector in Poland). The author's conclusions are based on deduction. The article is a complement to a research gap in the scope of the diagnosis of barriers and possible problems that may occur while conducting a performance audit in public finance sector units in Poland. Considering the fact that the analysis conducted in the article was focused mainly on the performance audit in performance-based budgeting, the article makes a particular input into accounting studies.

The article consists of four subsections, the introduction and conclusions. The first subsection includes the characteristics of the idea and development of the performance audit around the world, and its connections with the accountability process. The second subsection presents the development of the performance audit in Poland

and the fields of audit in Great Britain that directed Poland towards the performance audit. The author compared the legal framework in those two countries in order to indicate shared conditions in the range of the performance audit. In the third subsection, the author presents the actions of the British National Audit Office (NAO) and the Supreme Audit Office (NIK) in Poland as an example of institutions that conduct performance audits. The last subsection includes the description of the concept of British performance audit programs carried out by the NAO. The author also presented possible problems that may appear while conducting performance audits in public finance sector units in Poland. Moreover, the author indicated legal-economic loopholes that ought to be closed in order to effectively use the performance audit in the above-mentioned entities.

It should be emphasized that the performance audit used in public finance sector units is the outcome of implementing managerial control processes and it only begins to fully function at present. Thus, the issues of the performance audit functioning presented in the article show mainly theoretical aspects and they are attempts to identify detailed problems, they are not a reflection of the used practices.

The author chose such a topic of the article in order to emphasize the importance of the performance audit in Poland and indicated the possible problems as well as loopholes connected with conducting the performance audit. The article includes an analysis of the development and usefulness of the performance audit in public finance sector units in Poland with reference to Western practices. It is a tool that, on the one hand, directs the conducted activities towards the effectiveness of the operation of public finance sector units, thanks to the rationalization of expenses, and may force a full introduction of accountability in Poland; however, on the other hand, it requires refining in some aspects.

The solutions presented in the article are directed both to Polish and British internal auditors in order to popularise good practice, and to people interested in auditing.

1. Definitional presentation and development of the performance audit around the world and its connection with the accountability process

The performance audit has developed over several decades in many parts of the world with the aim of assessing aspects of how government organizations have performed and have used the resources provided to them. It grew initially in Europe, Australasia and North America during the 1970s and 1980s, taking root in many democracies – at national level within Supreme (or state) Audit Institutions (SAIs), and variously at state, provincial, regional, local and municipal levels as auditors widened their perspective, from whether the money was spent as intended, to broader considerations of whether it was spent efficiently and, even more challengingly, whether it was used to good effect (Lonsdale *et al.*, 2011, p. 4). By the 1990s, the performance

audit was fully established in most advanced economies, with its own procedures and principles (Alwardat and Abdelhafid, 2014, p. 86).

Johnsen and Vakkuri (2001, p. 585) note that this is particularly apparent in Australia, Canada, Finland, France, Norway, New Zealand, the Netherlands, Sweden, the UK and the USA.

Information about conducting the performance audit in selected countries is presented in Table 1.

Table 1. Performance audit mandates in selected countries

Year	Country	Legislation
1921	The United States of America	General Accounting Office established with broad mandate to investigate „all matters relating to the receipt, disbursement, and application of public funds” and „to make recommendations looking to greater economy and efficiency in public expenditures”. Subsequent acts have clarified and expanded the mandate.
1983	The United Kingdom	The National Audit Act formalized the NAO’s ability to examine the economy, efficiency and effectiveness of government spending.
1993	Ireland	The Comptroller and Auditor General (Amendment) Act allows the C&AG to carry out examinations of the extent to which the acquisition, use and disposal of recourses have been carried out economically and efficiently, but not directly look at effectiveness.
1997	Australia	The Auditor General Act authorizes the Auditor General to conduct a performance audit of an entity, a Commonwealth authority or company, other than a Government Business Enterprise.
1998	Belgium	Provides for the audit of the sound use of public funds and to examine economy, efficiency and effectiveness.

Source: Lonsdale *et al.* (2011, p. 5).

It is worth noting that within the performance audit concept there are different descriptions and forms of audit. „(...) At present, there is no legal definition of performance auditing. The concept is actually conceived as the criteria to be met underlying any study or analysis” (Beliciu, 2012, p. 492). The audit practice main emphasis is to examine the economy, efficiency and effectiveness in the delivery of public services in both financial and non-financial terms.

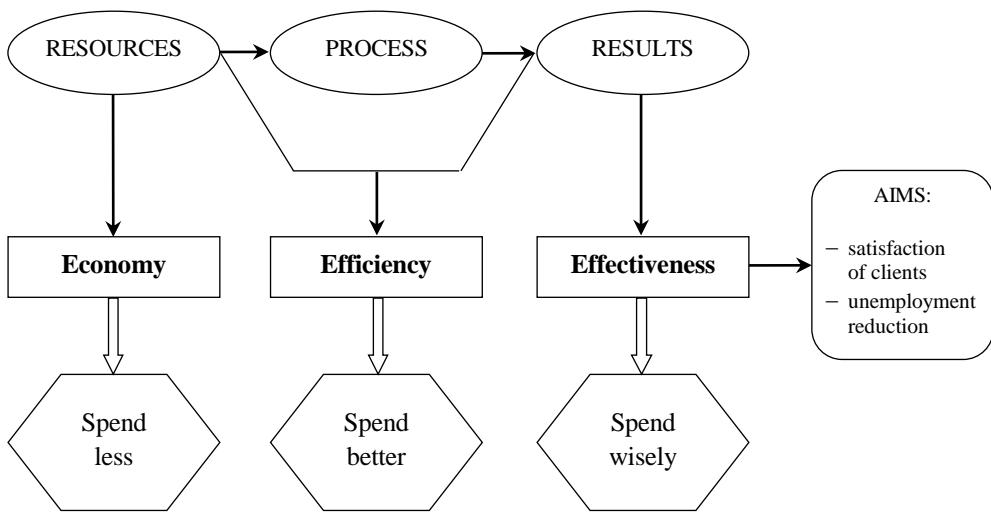
The INTOSAI Auditing Standards (*Basic Principles in Government Auditing*, 2004) state: „(...) The performance audit is concerned with the audit of economy, efficiency and effectiveness and embraces: (a) audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies; (b) audit of the efficiency of utilisation of human, financial and other

resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and (c) audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact". Waring and Morgan (2007, p. 323) define the performance audit as „(...) a systematic, objective assessment of the accomplishments or processes of a government program or activity for the purpose of determining its effectiveness, economy, or efficiency".

Daujotait and Macerinskien (2008, p. 178) think that „the aim of the performance audit is to evaluate an audited entity's performance and management in terms of economy, efficiency and effectiveness and to provide recommendations on how to improve the performance of the said entity".

The relations between the elements of the performance audit, i.e. economy, efficiency and effectiveness, are presented in Figure 1.

Figure 1. Connections between economy, efficiency and effectiveness



Source: developed by the author on the basis of Ohman (2011, p. 109).

From the information presented in Figure 1, one can understand that the economy shows the scope of tasks undertaken by an organization and is an answer to the question whether the costs in conducted activities were minimized while simultaneously maintaining their quality. Efficiency is a measure of using means by a unit and an indicator of expenses incurred. Effectiveness is to verify the realization of goals planned by a given unit and assessment of the results of tasks undertaken by it. The auditor, carrying out the study oriented at economy, expresses an opinion on the resources used in the unit.

Conducting performance audits, one has always to take into consideration the engaged resources of a unit (human resources, material resources, assets or information), analyze the processing of those resources into products (providing services, delivering goods or collecting revenue) and verify the results against the previously assumed goals (e.g. satisfaction of clients, unemployment reduction).

Performance auditing assists the auditee in (Beliciu, 2012, p. 494):

- building financial savings or reducing costs,
- backing-up and streamlining its management,
- providing better quality for services,
- achieving the objectives at a low cost.

Additionally, Kells and Hodge (2011, p. 168) diagnose in their study the elements of the performance audit that have an influence on the innovative character of the public sector. The information about the matter is presented in Table 2.

Table 2. Elements of how the performance audit could affect the six innovation elements

Item	Innovation Element	Description
1.	Capacity to innovate	The auditee's staff may learn from the audit process (e.g. they may develop new skills from problem diagnosis and problem solving), thereby enhancing their ability to innovate.
2.	Impetus for change	The performance audit (possible or actual) is a source of change pressure.
3.	Identification of possible change	The performance audit is a source of ideas.
4.	Management endorsement and adoption of change	Aspects of the performance audit (such as the competence and empathy of the auditors) affect management decisions about change, and the degree of management buy-in to recommended changes.
5.	Implementation of the change	The auditor may provide advice about implementation. The relationship between the auditor and the auditee affects the level of staff buy-in to the recommended changes.
6.	Monitoring of innovation and measurement of impact	The performance audit can affect the level of the organisation's investment in monitoring systems. Monitoring and follow-up by the auditor of its recommendations can contribute to the agency's own monitoring of the innovation.

Source: Kells and Hodge (2011, p. 168).

The points and factors that shape the performance audit allow for using this tool to popularise the process of accountability, which means: „(...) responsibility of persons and entities who were entrusted with public funds for the performed tasks and duties,

for the entrusted public finance, as well as for the application of rules and standards appropriate for the occupied position. The person or the body to which the governing person is responsible and to which they report should be clearly stated" (*Glosariusz terminów..., 2005*).

According to Alwardat and Benamraoui (2014, p. 96), there are two main forms of accountability: (1) managerial accountability, which is applied to managers and professionals by holding them accountable for the use of public resources and (2) political accountability, which is applied to the elected representatives by holding them accountable to their electors for the authority granted to them.

The capacity of accountability means that the supervising body (the contracted party) has to give the society and/or the receiver of the service (the contracting party) a report on the achievement of the goals and on the management of the entrusted resources. However, there are certain risks within the relationship between the contracting party and the contracted party, e.g., the possibility of the occurrence of the conflict of interest between the two parties, or the complexity of operations that could be too difficult to comprehend for the contracting party.

Due to the existence of that risk, the necessity to employ an independent, objective third party in order to verify the credibility of the contracted party's reports on the realization of their tasks arose. It is imperative that the contracting party is assured by the independent third party that the accounting (including the expenses) of the contracted party is reliable. That is why the audit – in relation to accountability – is a strategy that minimizes the risk of the ordering party. The elements of accountability are (Kincaid and Sampias, 2004, p. 204):

- budgeting in connection with the realization of the tasks, and reporting on the realization of the tasks,
- financial reporting,
- audits,
- evaluations,
- monitoring,
- openness of the functioning of the authority.

Since the audit is conducted by independent, objective third parties in accordance with the standards, it is one of the most credible means of accountability. Various forms of audit are a method of control that helps to realize the goals in an appropriate way. Accountability is a commitment on the part of the public authorities on revealing, explaining and justifying the fulfilment of the obligations (*Accountability, Performance Reporting..., 1996*, p. 9). The need for accountability contributed to the necessity of a greater amount of information on the programs and services of the public sector. Public officers, employers as well as citizens want to know, and have the right to know, if the public sector funds are handled properly and in accordance with the law and with the executive regulations. Moreover, these groups of people want to know if the public sector services achieve their goals and if they operate in an economic and effective way.

One of the aims of the public sector audit is to make sure that the funds are spent in accordance with their purpose, controlling the finance management and revealing improper or unlawful activities. Audit, a tool available to public officers and to the society, serves the purpose of evaluating the effectiveness of public officers' actions – in both financial and operational terms. Audits reveal inaccuracies and create the possibility of evaluating the actions that have an influence over the effectiveness and efficiency of the organization.

2. Legal-economic conditions of the development of the performance audit in Poland in comparison with the development of audit practices in Great Britain

The internal audit was introduced in selected units of the public finance sector in Poland on 1st January 2002 (the Act on the Change of the Public Finance Act ..., 2001, sec. 35). At first, it consisted in scrutinizing the compliance of a unit's operations with the provisions of the law and in verifying the correctness of the realization of the planned actions. Then, in subsequent years, the internal audit evolved and amendments of legal acts changed its shape from a being tool examining the compliance of financial management towards being an instrument supporting the efficient management of a unit.

Definitively, on 1st January 2010 the Act on Public Finance of 27th August 2009 came into force in Poland and transformed the idea of the audit from financial-accounting into the financial-managerial aspect, embracing with its scope all areas of the functioning of a unit. In accordance with sec. 272 of the above-mentioned normative act, the internal audit becomes an independent and objective activity, the purpose of which is to support the minister managing a department or the manager of a unit in the realization of goals and tasks through the regular evaluation of managerial control and advisory activities. The evaluation concerns, in particular, the adequacy, effectiveness and efficiency of the managerial control in the governmental administration department or in a unit.

The above-mentioned evolution of the audit resulted from the implementation of managerial control, which constitutes all actions undertaken in order to ensure the realization of goals and tasks in a lawful, effective, economic and timely way (The Act of Public Finance, 2009, sec. 28). Its aim is to ensure, in particular: compliance of the activity with the provisions of the law and internal procedures, the effectiveness and efficiency of the action, the credibility of reports, resource protection, observing and promoting principles of ethical proceedings, how efficient and effective the information flow is and risk management. The internal auditor, within the assessment of managerial control that covers all aspects of functioning of a unit, will focus on the

goals of a unit and the efficiency of their accomplishment (Kołosowska and Bartoszewicz, 2014, p. 1247).

The above direction of the development of the internal audit brought the necessity to change the attitude towards internal audit, from a compliance audit into a performance audit¹.

The performance audit is defined by the Ministry of Finance in Poland as: „regular, intentional, organized and objective examination of action undertaken within the public finance sector with the application of the criteria of effectiveness, efficiency and economy. It provides an assessment of actions undertaken by units to their decision-makers/managers. In addition, the gathered information, observations and recommendations serve to promote a responsible, honest and effective manner of conducting the activity within the sector” [*Performance Audit. Methodology (suggestion)*, 2008].

Within the performance audit one may distinguish (Lisiecka, 2012):

- an audit based on effectiveness – the assessment of the results of the task execution,
- an audit based on efficiency – the efficiency of the product/service, unit costs, indices, e.g., those presenting the level of the use of the resources, service lead time, etc., are subject to verification,
- an audit based on economy – the examination of the scope in which the use of the resources was minimized (financial means, personnel resources, equipment, rooms) and the quality of the tasks was taken care of during the realization of those tasks.

It should be stated that „performance audit” is a wide term so in the context of the effectiveness of public finance spending it will be used mainly for estimating the implementation of performance budgets. The research of this field will mainly include (Skoczylas-Tworek, 2013, pp. 200–201):

- I. Comparative analysis of the level of government spending in recent years considering the realization of tasks and aims the money was supposed to be spent on.
- II. The evaluation of established legal and organizational regulations in the scope of managing public finances in an organization.
- III. Creating a set of evaluation criteria of planning effectiveness and efficiency and spending means as well as verifying methods and techniques taken to analyze the processes in terms of rationality, which require the internal auditors to:

¹ The performance audit, i.e., the audit of activity, typical of the public sector, in Poland translated as „audyt efektywnościowy”. The corresponding notions are: value for money audit (the assessment of the ratio of the input to the effects), which means a systematic, intentional, organised and objective examination of the activities within the public sector; and the best value audit, the term used in local government in Great Britain (Knedler and Stasiak, 2014, p. 45).

- 1) identify the criteria of evaluation of the planning process and public finance spending,
- 2) determining the factors that influence the effectiveness and efficacy of the processes,
- 3) evaluating tools and mechanisms taken during planning and spending public finances considering their rationality.

The number of such audits in the public sector is much smaller than in the private one. It is caused by, among others (Mazurek and Piołunowicz, 2008, pp. 17–18):

- less pressure on the effectiveness of the ways of finance spending,
- greater pressure on fulfilling formal requirements,
- the lack of demand on the part of the administrators and managers for information on effectiveness,
- a greater number of regulations governing the private sector,
- a lack of promotion of changes in audit operation on the part of the auditors themselves.

Despite these conditions, the performance audit is more frequently talked about in Polish public administration. The existence of this notion proves the dire need to separate the way of auditing that concentrates on the operational aspects (Knedler and Stasiak, 2014, pp. 45–46).

Nowak and Skoczylas (2011, p. 180) state that: „The evolution of the internal audit in Poland takes place in a similar way as it happens in the rest of the world, however, it began later and it has proceeded faster. The experience that the Polish public finance sector took from the direction of changes in the development of the audit around the world has definitely influenced the process. At present, the internal audit has become a more useful tool for the organization of the Polish public finance sector – it not only increases information, but it also evolves towards providing the management with ready conclusions and decisions that may result in the growth of the realization of the activities in the organization. Considering such a fast changing process that has happened in public sector units in Poland, and considering the pace of changes around the world, it is difficult to indicate what the next stage of development of internal audits, both in Poland and around the global, will be”.

Regardless of the fact that in every country the development and functioning of internal audit may vary, one should emphasise that, generally, the audits are similar considering the fact that they are influenced by some historical, political and economic factors. British audit practices are a suitable model for the development of the internal audit, especially in the context of the performance audit. The choice of Great Britain is obvious for two reasons. The first one refers to the history of auditing – the contemporary internal audit had its beginnings during the industrial revolution in England in the 18th century when the owners of British companies used to employ people responsible for the supervision of financial documents. The role of those supervisors was not to point out mistakes and search for the people responsible but to

evaluate the systems functioning in the given organization. Moreover, there emerged the position of an internal auditor who no longer was a professional accountant or an external auditor, but a supervisor over what is going on within the organization (cf. Piaszczyk, 2005, pp. 11–17). Due to this, the article makes references to the practices of the British audit. The second reason is the vast range of the British performance audits which control the use of the public finance by public institutions, particularly in terms of expenses.

The internal audit in Great Britain functions at the level of particular entities – in departments, executive agencies and other autonomous organizations (Mazurek and Piółunowicz, 2008, p. 8). Although the functioning of the internal audit is not a legal obligation, due to its role in gaining assurance regarding the implemented solutions, it is considered a basic element of management. It means that each ministry and its dependent unit has an internal audit section which is subordinated only to the head accountant and to whom the section reports.

An accounting officer is the person responsible for the implementation of the governmental policies and for supporting the minister. Such an officer is present in each ministry and is also accountable to parliament for the use of the public finances. Moreover, they are liable for the efficient functioning of the internal control system, signing the internal control statement and preparing the annual report. The basic purpose of the internal audit is to provide the accounting officer with an objective evaluation and opinion on the adequacy and effectiveness of the organization in terms of the general management system, as well as the system of the internal control and of the risk management. The internal audit is focused mainly on examining the effectiveness and economy of spending public finances, as well as on revealing frauds and embezzlements (*Internal Audit in EU Countries*, 2012).

Nath identifies 8 possible legal-economic elements that influence the development and current form of auditing in Great Britain. The elements are as follows (Nath *et al.*, 2005, p. 8):

- auditor-general influences,
- central and local governments,
- government fiscal policies,
- pressure from lobby groups,
- statutes and legislation,
- the public sector accounting profession,
- reorganization of the audit office/general accounting office.

Considering the influence of the above-mentioned elements on the development of the performance audit in Great Britain, the author made an analysis with reference to the development of the performance audit in Poland. The comparison is presented in Table 3.

Table 3. Comparison of factors that influence the development of the performance audit in Great Britain and Poland

Political-economic field	Reference to the subject in the British literature	Factors dominating in the field	Great Britain	Poland
1. Auditor-General Influence (UK)	Flesher and Zarzeski (2002)	<ul style="list-style-type: none"> • Including performance auditing reports as a part of formal reporting but independent of annual audit report • Personal and Professional influence of Auditor-General 		<ul style="list-style-type: none"> • Recommendation of the Minister of Finance (as good practice) of the need to use the performance audit for economic, effective and efficient public finance management
2. Central and local governments	Flesher and Zarzeski (2002); Grimwood and Tomkins (1986); Pendlebury and Shreim (1990, 1991)	<ul style="list-style-type: none"> • Review of 1972 Local Government Act in 1982 UK • Improve financial management and efficiency • Economic reforms in the Public Sector • Shift in public administration from resource allocation based on equity to concepts of efficiency in the management of public sector resources 		<ul style="list-style-type: none"> • A greater number of tasks of government administration units and local government units • Introducing performance-based budgeting • Increased allocation of funds from the European Union
3. Government fiscal policies	Yamamoto and Watanabe (1989)	<ul style="list-style-type: none"> • Growth of public sector and increases in government spending 		<ul style="list-style-type: none"> • Growth of public sector and increases in government spending
4. Pressure from lobby groups	Flesher and Zarzeski (2002); Thompson (1996)	<ul style="list-style-type: none"> • Calls from social and political lobby groups for greater government accountability in the management of public sector resources at national level due to: 	<ul style="list-style-type: none"> a) increased public awareness of government fiscal policy b) an increase in government spending c) increase in taxes to fund new public sector programs 	<ul style="list-style-type: none"> • Social pressure on the effectiveness of tasks and the appropriateness of public finance spending • Social demand for public finance accounting of the government • Government pressure on better results of units (reports on tasks realizations)

Table 3. Comparison of factors that influence the development of the performance audit in Great Britain and Poland (cont.)

Political-economic field	Reference to the subject in the British literature	Factors dominating in the field	Great Britain	Poland
5. Legislation – new and/or changes to Public Sector Audit Act	Burrows and Person (2000); Pendlebury and Shreim (1990)	• Changes to the UK National Audit Act 1983, as a result of the change the UK Auditor-General was given the mandate to undertake the performance audit	<ul style="list-style-type: none"> • Change of the Public Finance Act, coming into force of the Act of 27th August 2009 about public finance • Introducing the term of internal control by sec. 68 to the Act of 27th August 2009 about public finances • Determining by the Ministry of Finance of the International Standards for the Professional Practice of Internal Auditing as standards for public finance sector units 	<ul style="list-style-type: none"> • Change of the Public Finance Act, coming into force of the Act of 27th August 2009 about public finance • Introducing the term of internal control by sec. 68 to the Act of 27th August 2009 about public finances • Determining by the Ministry of Finance of the International Standards for the Professional Practice of Internal Auditing as standards for public finance sector units
6. Influence of the Public sector Accounting Profession	Flesher and Zarzeski (2002)	• Public sector audit profession contributed to promulgation of the public sector auditing standards	<ul style="list-style-type: none"> • Compatibility of audits in the financial field with research conducted by expert auditors 	<ul style="list-style-type: none"> • Compatibility of audits in the financial field with research conducted by expert auditors
7. Reorganisation of the audit office / general accounting office	Flesher and Zarzeski (2002)	• Reorganization of the Audit Office or General Accounting Office led to the extended the scope of audit, which included performance auditing	<ul style="list-style-type: none"> • Transforming the Internal Audit Department in Ministry of Finance into The Department of Public Expenditure • Orienting control activities carried out by the Supreme Audit Office to the verification of the effectiveness of public finance spending and the effectiveness of the units' activities 	<ul style="list-style-type: none"> • National Audit Office - developing and providing guidance and auditing statements on the conduct of appropriate performance auditing

Source: developed by the author on the basis of Nath *et al.* (2005, pp. 8–11).

The information presented in Table 1, relating to factors that influence performance audit development, proves that the creation and development of the performance audit in Poland and Great Britain was a mixture of political, economic and social processes in seven fields. The indicated points of development are not a closed set, however, the author thinks that they are essential in the performance audit development.

3. The activity of the National Audit Office and the Supreme Audit Office controls in Poland in the context of conducting performance audits in Poland

In both Poland and Great Britain, apart from the performance audit, the rationality of public finance management undergoes additional internal audits conducted by national institutes. However, regardless of the fact that the form of audits is similar in those two countries, one might have the impression that in Great Britain the audits are more detailed and they are more focused on public accounting.

The organization that cyclically checks the rationality of public finance spending of government institutions in Great Britain is the National Audit Office – the NAO (National Audit Office, www.nao.org.uk, access: 20.02.2015). Its role is to prepare reports for Parliament on how public finances are spent by central government². In this way, the governmental institutions may be called to account in the case of improper spending of the public funds, thus the interests of the taxpayers may be secured. The organization is totally independent of the government and is headed by the Comptroller and Auditor General (C&AG) on behalf of whom the employees perform specific tasks.

The following normative acts regulate the functioning of the National Audit Office and the scope of authority of the C&AG:

- The National Audit Act (1983),
- The Government Resources and Accounts Act (2000),
- Exchequer and Audit Departments Act (1957),
- Exchequer and Audit Departments Act (1921),
- Exchequer and Audit Departments Act (1866).

NAO strategy assumes three areas of service:

- informing the government: the core of the success of the organization is the quality of the information on the basis of which the decisions are taken and the efficiency of an entity is monitored;

² Apart from the NAO, responsibility for public audits in the United Kingdom is divided between: The Northern Ireland Audit Office (NIAO), the Audit Commission, the Auditor General and the Accounts Commission for Scotland, served by Audit Scotland, and the Auditor General for Wales. Due to the limited volume of the given study, only the practices of the NAO were described.

- finance management and reporting: help in the cost control and elimination of waste by the improvement of finance management, better understanding of the relationship between the costs and the services provided, and the use of benchmarking to identify the areas where effectiveness can be improved;
- economic service delivery: it implies developing a reliable program and project management, good commercial skills and understanding of the client's needs.

The work of the NAO, on the other hand, is conducted within two fields. The first one concerns financial statements of all governmental departments, agencies and other public institutions. The second one concerns performance audits, and the results of these reports present the effects of the implementation of projects and initiatives by public institutions. Over 60 reports per year are presented by the Auditor General. They include the data and the description of the public expenses that are incurred by government departments and public benefit organizations.

However, in Poland the independent national control authority is the Supreme Audit Office (NIK) that estimates the functioning of the country and the managing of the public finances (Supreme Audit Office, 2015). It has to be emphasized that the assumptions of the performance audit are at the same time in line with INTOSAI Standards and with the operations of the Supreme Audit Office in Poland. The above regulations say that: „The full scope of government auditing includes regularity and the performance audit” and that: „Performance auditing is concerned with the audit of economy, efficiency and effectiveness” (*Standards and Guidelines for Performance Auditing Based on INTOSAI’s Auditing Standards and Practical Experience*, 2015). Verification within the above mentioned scope is carried out in Poland by the Supreme Audit Office, in accordance with the Constitution of the Republic of Poland (Constitution of the Republic of Poland, 1997, sec. 203):

1. „The Supreme Chamber of Control shall audit the activity of the organs of government administration, the National Bank of Poland, State legal persons and other State organizational units regarding the legality, economic prudence, efficacy and diligence”.
2. „The Supreme Chamber of Control may audit the activity of the organs of local government, communal legal persons and other communal organizational units regarding the legality, economic prudence and diligence”.
3. „The Supreme Chamber of Control may also audit, regarding the legality and economic prudence, the activity of other organizational units and economic subjects, to the extent to which they utilize State or communal property or resources or satisfy financial obligations to the State”.

Consequently, by auditing the performance and verifying the use of the resources of the unit both by performance audits and the Supreme Audit Office controls, the aim is the improvement of accountability and efficiency of public finance sector entities.

The Supreme Audit Office controls offices, institutions and companies which use public finances, while at the same time checking if the subjects carry out their tasks for the citizens in the most effective and economic way. The Supreme Audit Office,

owing to its powers, serves as a public finance guard as it cares for the legal, economic, appropriate use and diligent settlement of public money. The Supreme Audit Office not only indicates errors but it also gives possible solutions that aim at improving faulty mechanisms. It shows what aspects work properly in the country and where they should be streamlined. The Supreme Audit Office work is done on the basis of the Act of the Supreme Audit Office of 23rd December 1994.

Annually, over one hundred eighty pieces of information about control results conducted by the Supreme Audit Office are published. The reports include analyses of the most important findings of audits and the general evaluation of the controlled field. Every audit ends with a summary given in the form of a report and it is a compendium of the controlled field. The prepared information is presented to Sejm of the Republic of Poland, the President, the Prime Minister and proper government institutions (Supreme Audit Office, 2015).

It should, however, be stressed that the evaluation of the expenses considering their effectiveness in public finance sector units in Poland is made by the Supreme Audit Office relatively rarely (in relation to public finances as a whole) and, what is more, the audits consider the evaluation of activities already done. This system of control is an essential condition of the proper functioning of public finances, but it is definitely not enough to ensure effectiveness (see also Mazurek and Piółunowicz, 2008, p. 6). One may have the impression that it is still an environmental compliance audit conducted by external institutions. There is no vivid division, as it is in the controls conducted by the NAO, which split the controls into financial statements controls and performance controls, which should depict the rationality of public finance spending. At present, the analysis and evaluation of the effectiveness of public finance spending in Polish public finance sector units are included in the typical duties of internal auditors, which prevents the effectiveness programs from being carried out in such a wide range as is done in Great Britain. Staying with this solution requires, according to the author, the implementation of changes in legal regulations, as the legal aspect of the auditor's independence is insufficiently strengthened, especially in municipal sectors. Still, the auditor is subordinated to the manager of a given unit and the auditor reports all agreements to the manager himself which, in the context of ensuring the effectiveness of managing finances and accomplishing public accountability, is unfortunately not enough.

4. The idea of the British value for money program by the NAO and possible problems in conducting performance audits in public finance sector units in Poland

One of the main tasks of the National Audit Office is the implementation of the value for money program. It consists in performance audits of all government departments, executive agencies and many other public organizations in Great Britain. When the

NAO presents Parliament with the effects of the conducted audits, it informs them about the achieved goals to which the funds were prescribed, and examines if the public finances are spent in a way that is effective, efficient and economic. The studies conducted by the NAO aim at ascertaining if the entities implement the rule of the three „Es”, which means:

- minimum of the use of the resources – spend less (*economy*),
- maintain adequate proportions between the production of goods or services and the resources needed to produce them – spend better (*efficiency*),
- maintain adequate proportions between the set goals and the results achieved from the public finances – spend wisely (*effectiveness*).

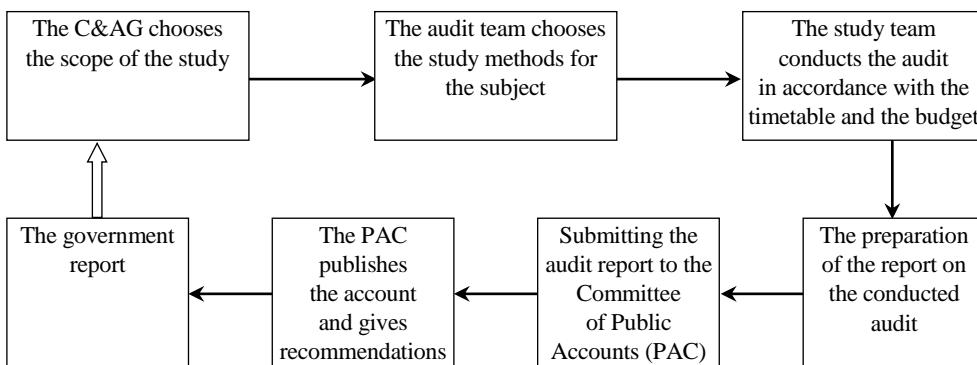
Conducting value for money studies, the approach and techniques employed by the NAO are innovative approach. Usually, a combination of qualitative and quantitative methods is used.

The most common of these are:

- financial analysis,
- analysis of management information,
- documentary review,
- interviews or focus groups with departmental and other staff,
- literature review,
- surveys of practitioners or service users,
- benchmarking with other organizations or other countries.

The NAO plans its audits on the basis of the suggestions by the Committee of Public Accounts, however, it is the Comptroller and Auditor General (C&AG) who, in the end, determines the entities to be examined. The performance audits conducted by the NAO can be included within a cycle of consecutive phases. The information on them is presented in Figure 2.

Figure 2. The NAO value for money cycle



Source: developed by the author on the basis of www.nao.org.uk (2015) and *Value for Money Handbook. A Guide for Building Quality into VFM Examinations* (2015).

Each study by the NAO analyses a particular range of public expenses on the basis of which an independent opinion is issued. It states whether the ratio of the input to the effects has been attained. The reports presented yearly by the Auditor General contain the data and the description of the public expenses that are incurred by government departments and public benefit organizations.

The study usually takes from three to twelve months. During the first phase, the Comptroller and Auditor General take the decisions – based on the opinions of the NAO team – about which ranges will be covered by the value for money study.

Then, the study team decides on the methods that will help to achieve the established goals in the most suitable way. During the third phase, the study methods for the given subject are chosen and the study is conducted in accordance with the timetable and the budget. After the completed audit, the NAO creates a report which includes the conclusions of the study. The report is submitted to the Committee of Public Accounts (PAC) which, having read the report, publishes its own account and gives recommendations to the government. On this basis, the Government issues a report presenting the actions that are to be taken in order to implement the recommendations. During the last phase, the National Audit Office evaluates the actions taken as a response to each of the reports. In some circumstances, the NAO carries out follow-up studies to measure the progress in the implementation of the recommendations that were given earlier.

The cycle of performance audits designed in such a way allows for the implementation of the accountability process at the same time. This is because the NAO performance reports provide the Committee of Public Accounts with the evidence on the spending of public finances by the Government. Recommendations are given on this basis and the assessment of the government actions takes place. The entire accountability process is contained within the following cycle:

- Parliament grants the funds at the request of the Government,
- the C&AG audits the governmental accounts, examines the expenses and submits the report to Parliament,
- the PAC calls the session and issues its own report,
- the Government responds to the results of the report,
- the NAO monitors the government actions and carries out a follow-up study.

In 2011–2012, the National Audit Office audited £1 trillion of revenue and expenses of 458 governmental accounts and submitted 63 reports to Parliament. Consequently, during these years, the work of the NAO generated £1.1 billion in savings for the taxpayer. The functioning of public services and public finance management was also improved (The Organization for Economic Co-operation and Development, *Assessing the Value for Money of Regulators*, 2013).

The outcomes obtained in Great Britain as a result of implementing the value for money program prove the effectiveness of performance audits, however, after deeper analysis of the issues of the usefulness and effectiveness of this type of audit, *inter alia* with reference to public finance sector units in Poland, some problems are noticeable.

The first doubt concerns the measurement of the effectiveness of public spending. According to the definition, effectiveness is „(...) the results of the taken activities described with relation of the effects to the outlays, when the relation should approach optimum” (Guziejewska, 2008, p. 72). We talk about effectiveness only when one can precisely determine the outlays and effects, and in the public finance sector it is not always possible (Poniatowicz, 2004, p. 330). The main problem applies to the selection of proper measurements to determine the effectiveness and to evaluate the achieved goals.

In the literature on the subject, it is postulated that the effectiveness of public expenditures be measured on two levels – macro- and microeconomics. The macroeconomic analysis tries to find relations that appear between the height and structure of spending and the basic macroeconomic values. One should then search for the effects of public spending among such factors as: economic growth (local, regional or national), inflation or unemployment rate. By contrast, in the macroeconomic effectiveness analysis of public spending one checks how public finances are spent by particular administrators (Tomkiewicz, 2003, pp. 15–16). Moreover, it is recommended that the administrator of finances, together with the auditor who conducts the performance audit, determine how deep the effectiveness analysis will be, which means that one should agree if the evaluation will apply to programs and tasks or to programs, activities, subtasks and tasks (Filipiak, 2011, p. 233).

Another aspect that is debated and that may cause difficulties in conducting a performance audit in public sector units is that the activities' objectives are often multi-faceted and therefore difficult to specify and measure. Questions that may arise are: „What constitutes good service?” and „What constitutes good quality?” Another difficult question, as performance audits can provide a basis for the accountability of elected officials, is how to combine accountability with efficiency incentives (Ohman, 2015, p. 164).

The next thing is that the performance audit implies an interaction between the auditors and auditees. From the adopted point of view, a performance audit constitutes an attempt by the auditor to influence the management of the audited organisation. On the one hand, the auditor, who is the source of the influence, tries to induce changes in the auditee's job performance. On the other hand, the auditee, who is the target of the influence, must decide whether or not he will comply with the auditor's attempt at influence (Morin, 2001, p. 100). According to the team role theory, Alwardat introduces the following types of conflicts which might apply to performance audit situations: (1) a conflict between the performance audit auditors' roles and their own values and standards (person-role conflict); (2) conflict between the performance audit auditors' capabilities and their role requirements (role overload conflict); and (3) conflict between the performance audit auditors and auditees (inter-sender conflict) (Alwardat *et al.*, 2015). For the effectiveness and efficacy of conducting the performance audit, the above-mentioned conflicts should be immediately solved.

One can ask to whom the results of the conducted audits should be presented. Should that be the unit manager? Perhaps the proper solution is to send the reports to higher-ranking officials, for instance to the Ministry of Finance or, in the context of public accountability, the reports ought to be presented to the public.

Skoczyłas (2012, pp. 110–111) indicates that: „Currently the control system and audit are not lucid. There is an organizational disarray because of which legal regulations are repeated and there are no unambiguous and unified definitions used in describing the same phenomenon. Due to that, it is necessary to improve the Polish control system and audit by implementing changes from both legal and organizational points of view. It should be pursued to accompany the changes by building a system that would be founded on work efficiency of institutions and control and audit units that would provide effective functioning of the whole public administration by means of uniform and transparent rules of audit and control organization”.

Apart from the doubts presented above regarding the usefulness and possibility of conducting performance audits in Poland, according to the author there are still legal-economic loopholes that should be filled in order to raise the effectiveness of the performance audit in public finance sector units in Poland (see also: Waściński and Śląwińska, 2013, pp. 66–68). They are as follows:

- acknowledging the performance audit as an obligatory management element, not as a statutory obligation;
- cyclical researching the rationality of public finance spending by external institutes, such as the Supreme Audit Office;
- public reports in the form of annual reports of government institutions on their spending and activities;
- reinforcing the activities of audit committees in the context of verifying audit works done by internal auditors;
- reinforcing the group of auditors in order to do the performance audit in its full scope;
- coordinating the activities done during internal audit with conducted controls of external institutions in order not to duplicate the activities.

It should be also stressed that management capabilities significantly increase the effectiveness of the auditing process (Ma and Ma, 2011, p. 5588). Managerial responsibility and the responsibility of ensuring the good management of budgetary funds involve the adoption of modern management principles, the implementation of control systems based on risk assessment, the development of clear and comprehensive rules and procedures for activities, and the practice of an effective audit function. The harmonisation of the structures of public institutions with the requirements of modern society, characterized by performance, efficiency and effectiveness, contributes to the accomplishment of the public system's main objective, to satisfy people's requirements at the highest possible level using the resources available (Beliciu, 2012, p. 496).

Conclusions

Contemporary systems of audit and control within the worldwide public sector have developed significantly since their only original goal was to ensure the accordance of actions with the law. Currently, they are very much oriented at the assessment of the effectiveness of the actions undertaken by public sector institutions.

The modernization of the internal audit systems was of particular importance for public administration managers by helping them to attain good results and to manage in an effective way (Mazurek and Piółunowicz, 2008, p. 8).

Analysis of the operation of internal audits in EU countries conducted by the Department of Audit of the Public Finance Sector³ proves that the operation of the internal audit is no longer oriented only at examining whether the operation of a unit is consistent with the law and governmental policies (see also: Gołębowski and Russel, 2012, 2013; Knedler, 2012). Nowadays, the main element of the internal audit is examining the effectiveness, economy and efficiency of the performance of public finance sector units and assuring the Prime Minister and/or the head of the unit that the system of internal/managerial control works well. This approach becomes even more important when one realizes that more and more countries oblige heads of units to report on the state of the internal control (Ministry of Finance, 2015).

The growth of performance auditing in many countries has led to a range of seemingly conflicting observations about their contribution to better public administration, which basically reflect differing political and public expectations of such audits (Barret, 2012, p. 129).

In the article, the author presented arguments for and against the performance audit. Additionally, the author introduced several comparative observations and identified loopholes that require closing in order to raise the effectiveness of the performance audit in public finance sector units in Poland. To sum up, in many units the internal audit still functions as a routine checking of compliance while in some other units it is too integrated with accounting and limited only to the financial sphere (see also Moeller, 2011, p. 31).

Thus, public sector institutions in Poland do not fully use the performance audit, so it is impossible to assess their activity from the point of view of economy, efficiency and effectiveness. It may result from the lack of knowledge of the specificity of the performance audit and the methodology of its conducting by internal auditors, or it is caused by other factors, such as low level of organizational maturity of units. Moreover, in the view of demands made by numerous authors of publications about the performance audit, one should become sceptical about the usefulness and possibility of using the performance audit as a tool in public finance sector units in Poland. Even though it is a tool that indicates many possibilities and changes in the functioning of a unit, in order to make this tool effective, one should implement changes and get rid of

³ Currently: Expenditure Policy Department.

some flaws, for instance one ought to think how to raise effectiveness, how the reports should look or how one could solve a possible conflict between an auditor and auditee.

It may be observed that both internal and external audits are only just being transformed towards the concept of aiming at the effects of the audits, because only that attitude, especially in the public finance sector, will give the possibility to assess the use of public means by state institutions and allow for the verification of goals that were achieved by them. At the same time, taking into account the tasks entrusted to public entities and the amount of means they dispose of, focusing only on the compliance of the functioning of a unit with legal regulations, or the correctness of the performance of planned tasks, is not enough. It is important which actions were undertaken by an organization, from the point of view of efficiency, effectiveness and economy.

It should be stressed that coming out of the performance audit in public finance sector units in Poland was a milestone in finding an effective instrument that would enable the effective management of public finances. Even though the practical functioning of the tool in Poland will be noticeable probably in the next couple of years, the possibility to close the above-mentioned legal-economic loopholes may give a chance to make the performance audit fully used in public finance sector units in Poland.

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