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Improvements At Local Governments Through External Auditing: A Lesson for Malaysia

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Introduction

Auditing has had a long history of assuring stewardship and accountability between principal and agent, mainly in the private sector but also encompassing and benefitting the public sector. Unlike more consulting-like for the public sector or non-profit organization, it has been used as one of many inspection activities performed on local authorities especially in the development of the accounts of an authority and on the legality of the underlying transactions. However, from the 1980s, external auditing has been applied in a variety of contexts referring to new and (or) intense account-giving and verification requirements (Courville et al. 2003), which is argued by (1997) as the ‘audit explosion’. This article intends to introduce the success of external audit in driving improvement at local government in England so their experience could be shared with managers of Malaysian local government and public sector at large.

The external audit for the public sector

An effective public sector audit activity strengthens governance by materially increasing citizens’ ability to hold their government accountable (The IIA, 2006). Auditors perform an especially vital function in those aspects of governance that are crucial in the public sector to promote honesty, equity, and appropriate behaviour of government officials, while reducing the risk of public corruption. Therefore it is crucial that government audit activities are configured appropriately and have a mandate to achieve these objectives. The audit activity must be empowered to act with independence and produce reliable services, although the specific means by which auditors achieve these objectives vary.

Government auditing supports the governance roles of oversight, insight and foresight (The IIA, 2005). Because government’s success is measured mainly by its ability to deliver services successfully and carry out programs in an equitable and appropriate manner, government audit activities must have the authority and competency to evaluate financial and program integrity, effectiveness, and efficiency. Auditors also have to protect the core values of the government as it serves all citizens and the public sector represents a principal-agent relationship (The IIA, 2006). The officials, acting as the agent, must periodically account to the principal for their use and stewardship of resources, and the extent to which the public’s objectives have been accomplished. The inherent nature of the principal-agent relationship may be reduced by an effective accountability mechanism. In this regard, governments place greater value on public audit to secure local authorities’ accountability (Lon, 1996). There has been much evidence of increasing inspection activities since 1980s and described as audit (Kelly, 2003; Hood et al., 1998). The principal relies upon the auditor to provide assurance to enhance government’s accountability.