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# Government Performance Auditing in the U.S. and China: Lessons Drawn from a Comparative Review

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**Abstract:** Performance auditing plays a key role in improving government performance and public accountability. This paper examines the concept of government performance auditing in the U.S. and China from a comparative perspective. The paper begins with a brief introduction of the origin of auditing and performance auditing. It then discusses the variances in definitions, names, and underlying values of performance auditing; describes the authorities and organizational structures of performance auditing in the two countries; and reviews the roles of performance auditing in improving government. It concludes with a discussion of challenges as well as opportunities that face government performance auditing in the U.S. and in China.

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The concept of auditing is as old as human civilization, but performance auditing, evolving in the 1940s in the U.S. and emerging recently in China, is still relatively young and has rarely been a subject of academic study. With various definitions, names, and underlying values both in the U.S. and China, performance auditing plays a key role in improving government performance and public accountability.

We have two main purposes in undertaking this analysis and two distinct audiences that we hope to reach. First, we want to deepen the understanding of performance auditing among professional government auditors in each of the two countries, thereby improving the practice of performance auditing. Second, illuminating the similarities in the practice of performance auditing in these two very different countries should demonstrate to public administrators the very fundamental nature of performance auditing's contribution to effective government. Since in many respects the practice of performance auditing is not well developed or fully institutionalized in either country, this comparison can benefit audit professionals and public administrators in each country.

## **The Origin of Auditing and Performance Auditing**

Auditing is a discipline beyond examining records or financial accounts to check their accuracy. Originating thousands of years ago, it is a specialized field of knowledge.

## **Concept of auditing originated thousands of years ago**

The concept of auditing can be traced back to over 5,500 years ago. Tiny marks beside numbers in the records of the Mesopotamian civilization are evidence of a system of verification — one scribe prepared

summaries of transactions; another verified the assertions. The English word “audit” originated from Latin *auditus* (hearing). Ancient Rome employed an oral verification to keep officials in charge of monies from committing fraudulent acts, which is called the “hearing of accounts” — one official compared his records with those of another. *Quaestores* (those who inquire) examined the accounts of provincial governors, seeking to detect fraud and the misuse of funds (Sawyer, 1990).

The practice of an auditing system in China began as early as 3,000 years ago in the Western Zhou Dynasty, the first dynasty to unite most of China under a single government. According to Confucius' *the Rites of Zhou (Zhouli)*, which describes Zhou Dynasty's government system, revenues and expenditures were audited in order to reward or punish an administrator (Confucius, BC841). A royal audit court was set up in the Song Dynasty in 922 A.D. From then on, every dynasty established specific institutions or offices in charge of monitoring state revenues and expenditures (National Audit Office of the People's Republic of China, *year unknown*).

## **Performance auditing evolved in the U.S. with expanded role of auditing in the 1940s**

Since its inception in 1921, the United States General Accounting Office (GAO) had traditionally focused on whether government spending was handled legally and properly by reviewing vouchers. After World War II, the GAO began to conduct comprehensive audits of federal spending and to examine the economy and efficiency of government operations (The United States General Accounting Office, 2001).

The GAO broadened its work and moved into program evaluation in the late 1960s and early 1970s. During the 1960s, both the number and dollar amounts of government programs which were aimed at

improving the quality of American life, increased substantially. In the 1970s, the number of new programs established was considerably less, but total dollar amounts continued to grow (Comptroller General of the United States, 1981). The increase in government spending and programs brought with it an increased public demand for more information about how well government programs were meeting their objectives. As such, auditing was becoming a discipline beyond examining records or financial accounts to check their accuracy

In 1967, the GAO began to examine anti-poverty programs to determine their efficiency and the extent to which they carried out their objectives, which resulted in over 60 reports and solidified Congressional support of GAO's program evaluation activities (The United States General Accounting Office, 2001; Funkhouser and Butcher, 2002). Auditing, previously the exclusive domain of accountants, became a multi-disciplinary field that included professionals with a wide variety of backgrounds.

The GAO officially brought performance auditing into government in 1972 when it issued the first edition of the *Standards for Audit of Governmental Organizations, Programs, Activities & Functions* (known as the "Yellow Book") to guide the auditing practices of performance auditors. The standards expanded the scope of the audit function to include not only examination of financial reports, but review of a program's compliance with applicable laws and regulations, evaluation of economy and efficiency in the use of allocated resources, and examination of effectiveness in achieving intended program results (Malan, et al, 1984).

### **Performance auditing is emerging in China**

The auditing function, focused solely on controlling revenues and expenditures, was carried out by internal supervisory bodies of public finance departments in the first 30 years after the founding of the People's Republic of China. In December 1982, the National People's Congress adopted a resolution to establish an auditing system in China. The National Audit Office of the People's Republic of China was formed in 1983 followed by local audit institutions being set up in provincial, municipal, and county levels of government.

Government auditing in China has been mostly budget implementation audits of governments; financial audits of governments, state-owned entities (i.e. enterprises, non-profit entities and monetary institutions) and special projects; and regulation compliance audits of earmarked funds and projects sponsored by endowment or loans from international organizations or foreign governments. The Constitution amended in 1982 and the Audit Law adopted in 1994 stipulate the duties and responsibilities of audit institutions.

Performance auditing has been mentioned and discussed more frequently among China's researchers and auditors in recent years (Liu, 2001). Its practice has

also been more prevalent as auditing economic responsibility and evaluating effectiveness of earmarked funds have grown. Audit institutions began to audit leading officials in county and above governments and state-owned enterprises after two regulations on economic responsibility audit were issued by the Central Committee of the Communist Party of China and the State Council in May 1999: (1) *Provisional Regulations on Economic Responsibility Audit of Leading Officials During Their Terms of Office in the Party and Government at and Above the County Levels* and (2) *Provisional Regulations on Economic Responsibility Audit of Chief Officers During Their Terms of Office in State-Owned or State-Holding Enterprises* (Embassy of the People's Republic of China in Australia, year unknown). Auditors not only check truthfulness and legality of the revenues and expenditures of an entity, but also evaluate the economy, efficiency, and effectiveness of the entity within the responsibility of the leading official. Therefore, the economic responsibility audit is the combination of financial auditing, compliance auditing and performance auditing (Liu, 2001).

For example, one audit bureau in Shandong Province examined the accounting transactions and gathered information from departments of finance, taxation, planning, science and technology, statistics, transportation, education and environment (Feng, 2002). It also evaluated a list of economic indicators, some of which included: measuring such indicators as returns and efficiency of projects, exports and foreign investment, and income per capita—all of which moves the role of government auditing beyond being solely concerned with revenues and expenditures. Government auditing is evaluating the efficiency of government projects and the impacts of government performance on economic development and residents' quality of life.

Besides verifying accounting information and compliance, earmarked fund auditing began to evaluate the effectiveness of fund-supported programs. One of the objectives of the "Audit of the Pilot Project of Reversing Cultivated Land to Forest and Prairie" performed in 2001 by the National Audit Office was to evaluate the effectiveness of the project, along with compliance auditing of fund utilization and checking the availability and completeness of policies and procedures (Liu, 2001). Effectiveness evaluation thus becomes another indication of the emergence of performance auditing in China.

### **Performance Auditing: Definitions, Values, and Organization**

In this section we focus on the evolving definition of performance and the underlying values, authorizations, and organizational structures associated with the growth of performance auditing in the U.S. and China.

### Definitions of performance auditing

Performance auditing can be defined in many ways. Lennis Knighton, the inventor of modern performance auditing, provided the first definition of performance auditing in the professional or academic literature. In his 1967 book, *The Performance Post Audit in State Government*, Knighton wrote:

A performance post audit is an independent examination, conducted by the Auditor General, for the purpose of providing the legislature with an evaluation and report of the manner in which administrators of the agencies and departments of the state have discharged their responsibilities to faithfully, efficiently, and effectively administer the programs of the state. Faithfulness refers to whether or not programs have been administered in accordance with promises made to the legislature and the expression of legislative will. Effectiveness refers to whether or not planned program objectives have been achieved. Efficiency refers to whether or not program accomplishment has been achieved by using the least-cost-combination of resources and with a minimum of waste (Funkhouser, 1997).

Some other definitions include:

The American Accounting Association (AAA) defined performance auditing in 1993 as:

The systematic and objective assessment of the performance of an organization, program, function or activity by an independent auditor, who reports findings, conclusions and recommendations to a party or group with legal responsibility to oversee and/or initiate corrective action (National Association of Local Government Auditors, *year unknown*).

GAO's definition of performance auditing in the 1994 revision to the audit standards is:

A performance audit is an objective and systematic examination for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action (Comptroller General of the United States, 1994).

The Chinese definition by Qi (2001) from Beijing Municipal Audit Bureau is close to those provided by the AAA and the GAO:

Performance auditing is performed by an auditor who, through modern techniques and methodologies, independently, objectively and

systematically evaluates the economy, efficiency and effectiveness of a program, activity or function of government, a government agency or a government-owned enterprise to provide recommendations, improve public accountability and provide information for decision-making of related parties.

Although variant in words and emphases, these definitions describe *how* performance auditing is performed, *what* is evaluated and reported, *why* it is performed, and to *whom* it is reported:

- Performance auditing is conducted *independently, systematically, and objectively* through *obtaining and evaluating* or *assessing* performance evidence.
- The criteria are *faithfulness, economy, efficiency, and effectiveness* in achieving *expected results*. *Findings, conclusions, and recommendations* are reported.
- The purpose of performance auditing is to *provide information, to improve public accountability, and to facilitate decision-making*.
- Performance auditing is reported to *interested users, such as, legislature or parties with responsibility*, to oversee or initiate corrective action.

### Various names of performance auditing

Like its definitions, performance auditing has a variety of other names in the United States and around the world: operational auditing, program auditing, results auditing, comprehensive auditing, management-oriented auditing, value-for-money auditing, effectiveness auditing, and efficiency auditing (Sawyer, 1990; Sheldon, 1996; Qi, 2001). In China, performance auditing in Hong Kong follows Great Britain's term in English, value-for-money auditing. However, its Chinese translation is "heng gong liang zhi shen ji," meaning "measuring the work and its value" auditing. When performance auditing was first introduced in China in the late 1980s, it was translated into "jing ji xiao yi shen ji" (economic efficiency auditing). This is the time period when China's economy was transferring from central government controlled economy to market economy. Economic efficiency was a major issue facing the country and auditing began to help state enterprises identify production potentials and analyze inputs and outputs of productions (Qi, 2001). Since the early 1990s, "ye ji shen ji" (achievement or results auditing) and "ji xiao shen ji" (achievement/results and effectiveness/efficiency auditing) have been used interchangeably.

### **Values underlying the practice of performance auditing vary**

The variance in definitions and names of performance auditing reflects the variance in the values underlying performance auditing, audit objectives, and audit scopes. This is partly the result of the profession's dual origins. Auditors with a traditional accounting background developed an approach that emphasizes "economy and efficiency" concerns, while those trained in social science developed an approach that emphasizes questions about program goals and results.

### **Three "E's:" economy, efficiency and effectiveness**

Since almost the beginning, performance auditing has been built around three "E's:" economy, efficiency and effectiveness. However, there are no consistent definitions of these terms in literature. Funkhouser (1999) questioned what these concepts are — "They could be principles, objectives or values." The traditional model of performance auditing views the three "E's" as objectives or criteria against which programs are evaluated, such as input economy, process efficiency, output effectiveness, and outcome effectiveness.

The GAO's *Government Auditing Standards* states that performance audits "include economy and efficiency and program audits." The standards do not define the meaning of economy and efficiency or the two types of audits (presumably subsets of performance audits); rather, it describes what each type of audit includes and gives examples of potential generic audit objectives for each.

With the advances in performance auditing and other areas, particularly performance measurement, considerable progress has been made in refining the meaning of "efficiency" and "effectiveness." Efficiency is the concept with least controversy. Knighton defined its meaning in 1967 as this: "Efficiency refers to whether or not program accomplishment has been achieved by using the least-cost-combination of resources and with a minimum of waste." Funkhouser (2002) simplified it to "doing the most good you can with limited resources".

Knighton stated that effectiveness refers to whether or not planned program objectives have been achieved. Funkhouser defined effectiveness as "getting the results that we want — solving the problems we want solved — creating the community condition we collectively desired" (Funkhouser, 2002). However, Sheldon (1996) referred effectiveness to "selecting the best alternative method of achieving objectives." Sheldon then added "relevance" and "sustainability" to relate the "methods" to goals: "Relevance" evaluates the relationship between the outputs achieved and their influence on program goals. "Sustainability" is a factor in performance audit in gauging the effects of the outcomes over time.

Economy is the word that has least consistency in its meaning and application. Sheldon (1996) referred to economy as the utilization of resources, whether these resources are tangible, such as current or fixed assets, or intangible resources, which are not "booked" on the financial statements, such as human resources inside the organization. Economy is achieved by having obtained these resources at the lowest possible cost. Funkhouser (2002) stated, "Economy is a concept that adds nothing to our understanding of audit that is not already supplied by the values of efficiency and effectiveness."

The three "E's" described by Qi (2001) in Chinese are generally consistent with the most definitions cited above:

(1) Economy refers to obtaining a certain amount and quality of outputs with the least resources. It measures the degree of waste reduction.

(2) Efficiency refers to the relationship between outputs (e.g. products and services) and inputs. Specifically, efficiency is to obtain the most outputs with a certain amount of inputs or to obtain a certain amount of outputs with a minimum amount of inputs.

(3) Effectiveness is how much the expected objectives are achieved, or the relationship between the expected effects of an activity and the actual effects. Examples are how the budgeted goals are accomplished, how policy is implemented, or how planned goals are achieved (the relationship between the outputs and the objective). It is the task of auditing to check whether the expected objective is achieved, without considering the resources that were input to achieve the objectives.

### **The fourth "E:" equity**

Recently, "equity" has been suggested to be added as the fourth "E" or to replace "economy." Equity considers the policy itself, such as the distribution of goods and services among citizens, states, and nations in the global village (Sheldon, 1996). Funkhouser (2002) defined four types of equity:

- Service costs — taxes and fees charged by the government, but need not only include such charges;
- Service delivery — includes direct services such as trash pick-up and indirect services such as response time for police and the proximity and quality of neighborhood parks;
- Police power — concerns the government's use of its powers of coercion. Those powers include arrest, property seizure, eminent domain, and various regulatory authorities

such as granting liquor licenses or building permits; and

- Access to communication — the ability to provide and receive information about the government.

Another sweeping example that audit work focuses on the equity issues is *The New Urban Direction*, a book-length special report by the City Controller's Office of Philadelphia. The report reviews the very tenets of governance, which are and are not served well by the city's governing structures, and how the system of governance might be changed (Funkhouser and Butcher, 2002). A smaller, more typical example of an audit that covers the concept of equity is the audit of emergency medical services by the City Auditor's Office of Kansas City, Missouri, which raised issues of equal access to services in terms of response times for emergency medical services (City Auditor's Office of Kansas City, Missouri, 2000).

Funkhouser (2002) believes the three "E's" — economy, efficiency, and effectiveness — reflect the underlying values that drive performance auditing. He states that the concept of equity is a core value underlying the practice of performance auditing along with the concepts of efficiency and effectiveness. As "economy" has included the meaning or values of efficiency and effectiveness, he suggests that "equity" replace "economy." He recently further explained why to include equity, along with efficiency and effectiveness, in performance auditing (Funkhouser, 2002): "Governments use both money and power to achieve results — efficiency and effectiveness address money; equity addresses power." Thus, "accountability should extend to the use of power as well as of money." "Public administration involves pursuit of equity as well as efficiency and effectiveness — therefore equity should be evaluated as well."

#### **Authority and organization of performance auditing in the U.S.**

The performance auditing function in the U.S. is usually established in the form of a legal sanction — either through charter amendment or state statute, or through modification of the jurisdiction's code or adoption of a specific ordinance. Performance audits can be conducted by external auditors such as the GAO or by internal auditors such as U.S. Inspectors General. Performance auditors or heads of the performance audit function are elected by the public and report to a legislative body, appointed by and report to the legislature, or appointed by the chief executive officer and answer to the executive branch. **Figures 1, 2 and 3** illustrate three organizational structures of performance auditing.

#### **National level**

The GAO conducts performance and financial audits within the federal government; over 80 percent of its audit work is performance auditing. It reports to Congress. The Comptroller General of the GAO is appointed by the president.

In addition, the Inspectors General in the federal government's departments and agencies also conduct performance audits. Nearly 60 federal agencies have an Inspector General, who serves under the general supervision of the agency director, but by statute, has a dual and independent reporting relationship to the agency director and Congress. Inspectors General are appointed by the President and with the advice and consent of the Senate (The U.S. Federal Government, 1978).

#### **State level**

More than two-thirds of the states have added performance audit to their audit function (Funkhouser and Butcher, 2002). In Kansas, for example, performance audits are the most common audits conducted by the Legislative Division of Post Audit, the audit arm of a legislative committee. These audits answer questions raised by individual legislators or legislative committees about potential problem areas in state agencies or programs. In Missouri, by contrast, performance audits are one of five types of audits performed by the office of an elected state auditor. The office did not begin to conduct performance audits until 1999.

#### **Local level**

Performance audits are also performed in county, municipal, and other local governments, such as school districts and transit authorities. A review of the membership of the National Association of Local Government Auditors (NALGA), which has about 1,100 members, suggests that cities may be more likely than counties to have a performance audit function (Funkhouser, 2002).

Funkhouser surveyed about 200 American cities with a population of 100,000 or more and found the number of cities that adopted performance auditing increased rapidly beginning in 1990. He also found that only 50 percent conducted performance audits as of 1999 (Funkhouser 2000). In those cities that did have an audit function, performance audits were found to be far less common than financial audits. Indeed, performance audits accounted for more than half of the audit work in only 19 cities. Based on that study, however, it is expected that the performance audit field at the local level will continue to grow, both in the number of cities that adopt performance auditing and the number and variety of audits performed.

### **Authority and organization of performance auditing in China**

In China an unusual extension of the performance concept is present, although the scope of the performance audit function is still limited. The Constitution amended in 1982 mandated an audit office with an Auditor General. The 1994 Audit Law stipulates that the Auditor General is nominated by the Premier, approved by the National People's Congress, and appointed and removed by the President of the State. The National Audit Office is under the direct leadership of the Premier of the State Council and reports to the State Council. According to the Audit Law, government auditing exercises its power of supervision through auditing independently in accordance with the law and is subject to no interference by any individual, department, or organization.

The governments at and above the county level have established corresponding audit institutions. The audit institution at the next higher level mainly directs the audit work of these audit institutions. They report to their corresponding level government and to the next higher level audit institution (National Audit Office of the People's Republic of China, *year unknown*). **Figure 4** describes the organization of audit institutions in China.

One difference between auditing agencies in the U.S. and in China is that there is a reporting relationship between an audit institution and other audit institutions at the higher and lower government levels in China. In addition, the National Audit Office has offices in 25 ministries under the State Council to perform auditing work. It also has offices in 18 cities to conduct audits and help the audit institutions at that government level. The audit institutions below the National Audit Office also have similar offices in the other government departments and at the lower government level.

Another difference is that the audit institutions in China are law enforcement agencies because they are implementing the Audit Law. The audit institutions themselves have the power to give sanctions and penalties (National Audit Office of the People's Republic of China, *year unknown*). This mechanism is seen as consistent with the government's effort to transform the country from rule of power to rule of law.

### **The Roles of Performance Auditing in Government**

Performance auditing plays important roles in improving government accountability and public trust. It is an information provider by assuring the quality of existing information and creating new information. It is a program evaluator with its independent status. It is a watchdog that catches evil acts — both by organizations and by individuals. It helps keep the good and get rid of the bad in government. It is a catalyst for change that proactively improves the government. Last but not least, it holds government accountable to the public and

government officials and managers accountable at their positions.

### **Information provider**

Performance auditing provides reliable, accurate and relevant information about organization performance to elected officials, legislative bodies, management staff, and the public. The minimum role of performance auditing is an information provider. It assists the elected officials and management staff in carrying out their responsibilities by providing them with objective and timely information on the conduct of government operations, together with auditor's analysis, conclusions and recommendations. Elected officials sometimes request information directly from performance auditors in the absence of management staff taking on the responsibility of providing such information that elected officials need to plan, direct, control and make decisions.

The public is another major receiver of the information. On one hand, citizens are demanding more information about government performance while they are expanding the traditional contact between themselves and government. Previously, citizens had direct contact with their elected officials, and public managers were accountable to legislatures or other governing agencies. Today, citizens demand government performance information so that they are able to assess the efficiency, effectiveness, and fairness of government services, rather than delegating this task to public managers and allowing the public managers to evaluate both managerial and program performance. The existence of performance auditing and reporting has made possible the expanded contact between the public and the government.

On the other hand, many citizens distrust government but know little about it. Negative views about government are strongest among those least informed (Desautels, 1997). People tend to imagine the worst in the absence of credible and understandable information about their government's overall financial position and operations and about the results and costs of individual programs. Information reported from performance auditing makes government performance information available and accessible. Even when the information is negative, performance auditing analyzes the causes of negative conditions and provides recommendations to address problems, which helps build public trust.

It is not raw data that performance auditing reports, rather reliable, accurate, as well as understandable information. Performance auditing plays a key role in providing assurance to the governing body about the fairness and completeness of the information management staff has provided (Leclerc, et al, 1996). The GAO's standards require assessing the validity and reliability of data when testing management controls of an audited entity, when using data gathered by the auditee as part of evidence and when using data from computer-based systems (Comptroller General of

the United States, 1994). Funkhouser (2002) addressed why performance data needs to be verified — “to enhance the credibility of information, and thus, its value to both preparers and users.”

In addition, performance auditing does not just provide “assurance” regarding existing information, but in fact produces valuable new information. Its analyses of existing information, findings and reporting of real problems, and recommendations of effective solutions are vital information for all the parties that use the information.

### **Program evaluator**

Performance auditing is the evaluation of government programs, functions and activities. The role of traditional financial auditing expanded when it began to assess managerial and organizational performance in the 1940s. Performance auditing assesses whether programs achieve government policies and whether they are administered efficiently. As a matter of fact, the GAO re-classified most of its auditors and management analysts as evaluators in 1980 to reflect the nature of their work.

### **Watchdog**

Performance auditing is often described as an organization’s watchdog function. The GAO regards itself as “the government accountability watchdog.” It serves Congress and the public interest by keeping a close eye on virtually every federal program, activity, and function. Its highly trained staff examines everything from missiles to medicine, from aviation safety to food safety, from national security to social security (The United States General Accounting Office, 2001).

Funkhouser (2000) described the responsibility of performance auditors as watchdog over two levels: individual and organization.

Performance auditing can provide an institutional and structural means of addressing administrative evil, which can complement solutions at an individual scale. The head of a government audit agency is a civil servant who can and by right ought to publicly disagree with political authorities when the facts of the situation warrant the auditor so doing. Most government auditors recognize that the public is their ultimate client and not the organization or jurisdiction that pays their salary. This being the case, their client, the public, is well served when the auditor uncovers abuses on the part of the organization that employs him or her as well as when the auditor uncovers abuses by other individual employees.

Some auditors may not like the image of a watchdog whose distant cousin is a junkyard dog. Funkhouser said in 1996 that a metaphor he liked then was “editor” — “as every good writer needs an editor,

every good manager needs an auditor.” Performance auditing clearly plays a critical role in defining good performance. Auditors, no matter a watchdog or an editor, identify the existence of problems and weakness, make recommendations for improving the system, which allowed the problem to occur, and sometimes suggest alternative ways to achieve performance objectives. The major benefits derived from performance auditing include cost savings, increased revenues, improvement in service delivery, and improved accountability. Thus, as Sawyer (1995) said in his “An Internal Audit Philosophy,” auditors should strive to “leave every place a little better than they found it”.

### **Catalyst for change**

Performance auditing provides a mechanism for proactive improvement in government. It identifies areas in which significant improvements can be achieved in operational efficiency and program effectiveness and equity. Its goal is to make appropriate actions happen to achieve improvement. Some performance auditors have been gradually playing a role in political agenda-setting.

Richard C. Tracy, Audit Director of the Portland City Auditor’s Office, first described performance auditing as a catalyst for change in his article entitled “Performance Auditing: Catalyst for Change” in 1988 (Funkhouser, 1997). He wrote, “Like most bureaucracies, local governments resist organizational change. ... The City of Portland, Oregon, has developed a method of bringing about operational and administrative change—performance auditing.” To “be a catalyst for improving city government” is also the mission of the City Auditor’s Office in Kansas City, Missouri (City Auditor’s Office of Kansas City, Missouri, 2001).

Funkhouser (1997) stated that performance auditors “must intend to control and direct the organizational and administrative change toward some end and manage the process in some way. The end we seek is greater accountability, guided by principles of efficiency, effectiveness and equity”.

### **Holding government accountable**

Government accountability in a representative democracy has its roots deep in history and is based on the underlying principle that the ultimate power to decide is vested in the people. Under a democratic system of government, the making of laws and the taking and use of public resources carry with them the responsibility to answer to the people as a whole (Governmental Accounting Standards Board, 1994). Performance auditing plays a significant role in fulfilling government’s duty to be publicly accountable in a democratic society. One of its objectives is to help the governments it serves become governments to trust and respect.

Accountability implies responsibility and public trust. The Governmental Accounting Standards Board (GASB) states:

Accountability requires government to answer to the citizenry, to justify the raising of public resources and the purposes for which they are used. Governmental accountability is based on the belief that the citizenry has a “right to know,” a right to receive openly disclosed facts that may lead to public debate by the citizens and their elected representatives.

Improved accountability resulting from performance auditing is twofold. First, there is internal accountability for management and the governing body. Performance auditing assists program managers and department directors to achieve their objectives and goals in the most efficient and effective manner. This results in improved accountability for those programs and services.

Secondly, there is external accountability to the citizens and other users of government services. Transparency leads naturally to greater accountability to the public. Performance auditing discloses more information, in more depth, and with greater clarity in reporting in most cases than is currently available to the public (Sheldon, 1996). Timely and accurate information provides a backdrop from which the public is able to discern government accountability.

### **Opportunities and Challenges Facing Performance Auditing in the U.S. and China**

Performance auditing, young and growing in both the U.S. and China, has great potential in contributing to increasing the efficiency and effectiveness of government programs and entities, enhancing government accountability, and ultimately improving democratic governance in both countries. At the same time, it faces the similar challenges and opportunities in both countries.

For example, performance auditing can help government decision-making. In the U.S., a developed country, social problems including drugs, poverty, violence, and joblessness absorb vast resources. In China, a developing nation, funds are desperately needed to improve infrastructure in goods and services such as transportation, education, healthcare, and communications systems. Hence, performance auditing, in both countries, can help in the decision-making process by assessing how best to allocate scarce resources and evaluating the effectiveness of supplying funds for the common purposes.

Opportunities are often encompassed in challenges. Some of the challenges include changing the environment to speed up the evolution of performance auditing, establishing uniform standards to guide performance auditing, maintaining the independence of performance auditors in appearance

and in reality, and promoting performance auditing education in colleges and on-the-job audit staff training.

### **Environment change**

While performance auditing is evolving to more jurisdictions and for more functions, a change in the environment is needed to speed up this evolution. Public education is to promote the idea of performance auditing. Technical assistance to performance audit offices and training of performance auditors need to be provided by professional audit associations, academic institutes, and, in China, audit offices at the higher level. Academic research on performance auditing and other relevant issues needs to be encouraged and supported.

### **Uniform standards**

More uniform standards for conducting and reporting results of performance auditing are needed. In the U.S., clear standards and practice guides for performance data verification do not exist. The government audit standards should address this issue, as they currently do with internal controls and illegal acts (Funkhouser, 2002). In China, the National Audit Office needs to establish the performance auditing standards, in the same way as it has issued several standards related to financial auditing.

### **Independence**

The concept of independence requires that auditors be independent of the activities they audit. They cannot audit the individual to whom they report nor should they audit the agency exercising direct or indirect control over their activities. Internal auditors should report to a position as high in the organization as practicable. In addition, auditors should have direct communication with the legislative body. An auditor reporting to the controller or finance director effectively is “hamstrung.” See **Figure 3**. The placement of the performance audit unit within a department or agency with a peer relationship to the organizations it will be auditing should be avoided (National Association of Local Government Auditors, *year unknown*).

It is not clear how many cities in the United States have an independent audit function. A survey conducted in 1999 of cities in the United States with populations of 100,000 or more showed that about 20 percent have an independent audit function (Funkhouser, 2002). In China, about one third of the audit institutions are *nominally* under the top government official, but they *actually* report to a lower level official who often also receives reports from the finance department. Also, some government officials have interfered with the audit work because they were afraid that audit results would make them look bad (Xiang, 2002). Auditors must have adequate authority to plan, implement, access and assess evidence, and report on their audit task. The auditors, within the scope of the audit, must be empowered to collect and analyze data and must have complete knowledge of their accountability function.



In addition, in China, the government at the corresponding level funds an audit institution and its finance and budget department decides the audit institution's budget and spending (Xiang, 2002). This funding mechanism has a negative impact on the independence of an audit institution as the department that budgets for the audit institution as well as approves its spending could be an auditee at the same time.

*Performance auditing education and staff training*

Performance auditing is a part of public administration. However, not many public administration programs in the U.S. teach about performance auditing. It is unique that China has a college, Nanjing Audit Institute, specializing in audit education. It is very exciting to see how performance auditing can fit in along with other majors, such as economics, law, public finance, and business administration.

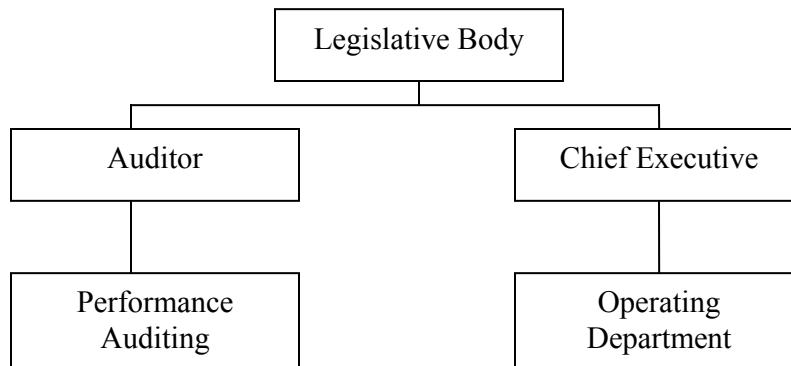
**Conclusion**

In this article, we have shown that auditing has endured for centuries and that performance auditing is experiencing a somewhat parallel development in both the United States and China. This is because accountability for large and powerful government organizations has become more important as the

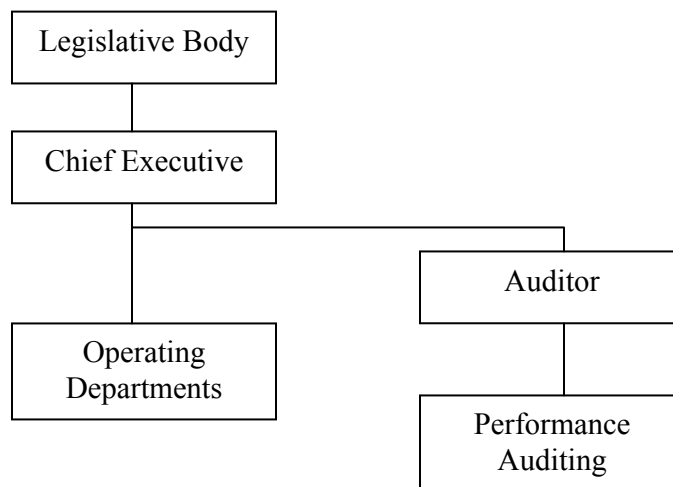
problems the governments are created to solve become more complex. The need to create government organizations with sufficient power to solve problems while being held true to the purposes for which they were created is fundamental in human societies. Despite differences in culture and political organization, performance auditing has grown and developed because it provides an institutional means for addressing this fundamental need.

The principal lesson drawn from this comparison is that the problems and conditions that lead to the development of performance auditing transcend cultural and political differences. In the U.S. performance auditing may be slightly more fully developed, but it is certainly not a mature discipline fully integrated in the administrative apparatus of government. In China the size of the country and the rapid pace of economic change and growth pose enormous challenges for public administration and as performance auditing develops in that environment there will certainly be lessons learned that auditors in the U.S. can benefit from. Finally, as we have shown, the central challenges facing performance auditing are similar in each of the two countries. There are clearly lessons for each to learn from the other.

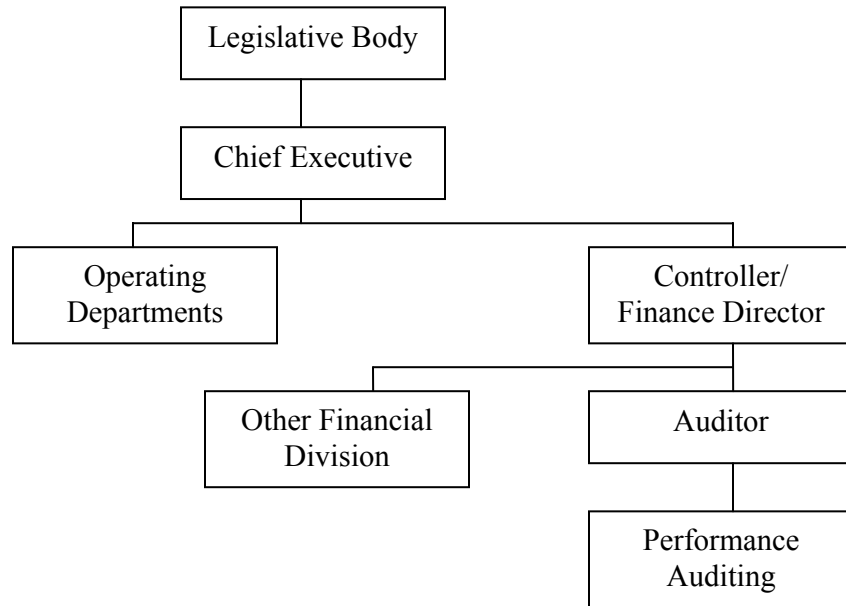
**Figure 1 External Performance Auditor under the Legislative Body**



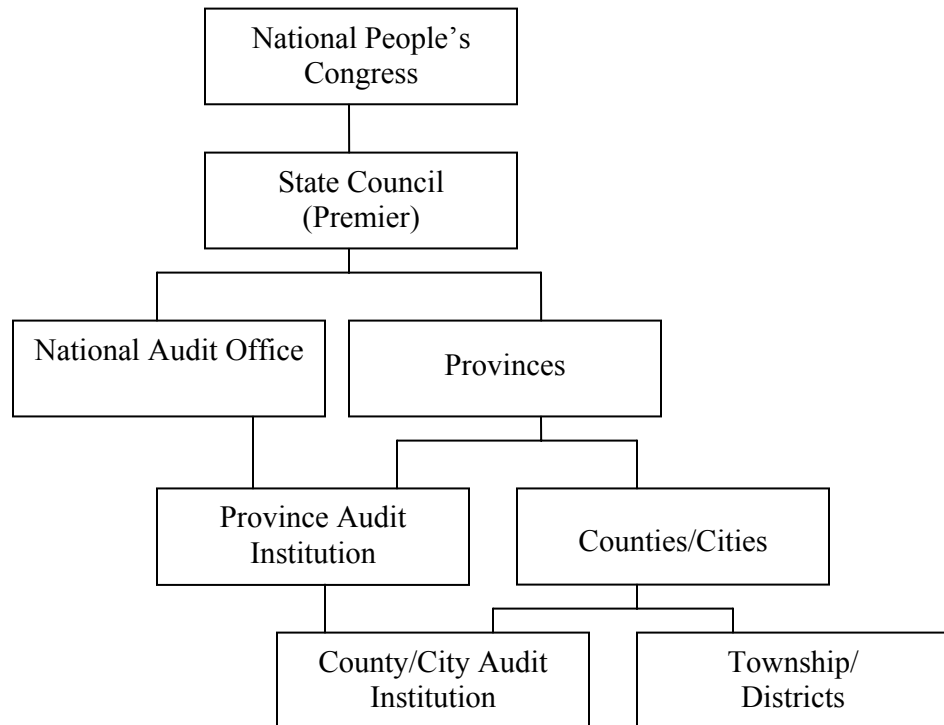
**Figure 2 Internal Performance Auditor under the Chief Executive**



**Figure 3 Internal Performance Auditor under the Controller or Finance Director**



**Figure 4 Organizational Structure of Auditing Institutions in China**



## Authors

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