

INTRODUCTION

Research motivations

Performance Auditing (PA) initially emerged from public sectors in a number of OECD nations since the late 1960s and has been developed rapidly in the first 1990s with the revolutions in public management in these countries. This stimulated researchers to examine the establishment and development of this type of audit to understand its nature and to build up the theories underpinning the PA. There were approximately 400 academic journals relating to PA as of July 2009, but only some research has investigated the formation and development of PA. To our knowledge, there is no study exploring the factors that affects the development of PA.

With the issuance of Vietnamese State Auditing Law 2005, PA was officially recognized in Vietnam. In 2007, State Audit Office of Vietnam (SAV) implemented a performance audit program. However, it has been postponed. Whereas there are no studies pertaining to this topic so far being released, SAV is applying this type of audit in practice.

To fullfill the gap between theory and parctices, the author chose the thesis named “The factors affecting the formation and development of PA in the Vietnamese public sector”. The research results are expected to significantly contribute to the theory and practices of PA in Vietnam.

Research objectives

Review the history of formation and development of PA in a number of countries around the world and the factors affect this process;

Assess the growth PA in the public sector in Vietnam;

Identify possible factors and measure its impacts on the formation and development of PA in Vietnamese public sector.

Research questions

Q1: Why do some SAI change from Compliance Audit, Audit of Statutory Financial Statements (traditional audit) to PA?

Q2: What are factors affecting the emergence of PA in the public sector in Vietnam?

Q3: What is the current level of development of PA in the public sector in Vietnam?

Q4: Which factors could hinder the development of PA in the public sector in Vietnam?

Q5: Which factors could impact the development of PA in the public sector in Vietnam?

Scope of research

Based on the above research questions, the focus of the research are factors that affect the formation and development of PA in public sector in Vietnam. The scope of research is PA in public sector in Vietnam and its affecting factors.

The research methodology

The author employed mixed research approach including qualitative research and quantitative research.

Contributions of the research

Theoretical implications:

+ Systematize the theory and studies on the formation and development of PA.

+ The qualitative research shows that there are 33 factors affecting the formation and development of PA in the public sector in Vietnam.

+ The quantitative research determines four main groups of factors affecting the formation and development of PA including (i) political factors; (ii) the ability of SAV ; (iii) skills of auditors and (iv) economic factors. Particularly, economic factors are hindering factors to the development of PA and the others are stimulating factors.

+ The most important finding in this study is the development of PA in the Vietnamese public sector depending on the internal factors (SAV abilities and the skills of auditors) rather than external factors (political and economic factors)

+ Additionally, this study provides empirical evidence to prove that developing countries characterized by a low transparency and accountability, and non-synchronized legal system, have a higher demand of PA. However, the supply of PA in these countries is far away from its demand, particularly in the public sector. PA, therefore, may only provide small-scale services.

Practitonal implications:

Results of this study suggest the leaders of SAI to select a appropriate development strategy to PA which is suitable for the country's current capability.

Structure of the research

Except for the Introduction, the thesis consists of five chapters, presenting in orders and including main contents as follows:

Chapter 1: Literature review on the formation and development of PA and the factors affecting this process

Chapter 2: Theory of PA in the public sector

Chapter 3: Research Methodology and methods

Chapter 4: Results and Discussion

Chapter 5: Conclusion and future research.

CHAPTER 1:

LITERATURE REVIEW ON THE FORMATION AND DEVELOPMENT OF PA AND THE FACTORS AFFECTING THIS PROCESS

This chapter provides an overview of literature review relating to factors affecting the formation and development of PA in the globe and in Vietnam. It also provides achieved results and further research areas.

1.1. Literature review relating to the formation and development of PA and the factors affect this process

1.1.1. The global studies

1.1.1.1. Research into the level of development of PA in a number of countries around the world

These studies placed an emphasis on investigating on the level of development of PA in a number of countries around the world to find out which country first established PA, which country had the fastest development of PA and which country had the most successful PA. The quintessential studies included Guthrie & Parker (1999), Leeuw (1996), Barzelay et al. (1996), Roth.D (1996), Shand & Anand (1996), Trodden (1996), Pollitt et al. (1997 and 1999), Suzuki (2004) and Lonsdale et al. (2011). Results of these studies showed that the history of formation and development of this type of audit were summarized through the following stages:

- + Early stage (prior 1970s);
- + Formation stage (from 1970 to 1995);
- + Development stage (from 1996 to 2007);
- + Modern stage (from 2007 to present).

1.1.1.2. Research into factors stimulating the formation and development of PA

The studies of PA were only conducted after carrying out this type of audit in SAI in a number of developed countries in order to perfect its theory such as, in the United Kingdom (McCrae & Vada 1997; Flesher & Zarzeski 2002); in US (Yamamoto & Watanabe 1989; Yamamoto & Watanabe 1989; McCrae & Vada 1997; Gendron et al 2000; Flesher & Zarzeski 2002, Reference Nath 2005); in Australia (Funnell 1994; Guthrie & Parker 1999; Flesher & Zarzeski 2002); in Canada (Yamamoto & Watanabe 1989; Radcliffe 1998). Only a few studies were conducted in developing countries such as in China (Hui Fan 2012), in Bangladesh (Ferdousi 2012), in Malaysia (Daud 2007), in Iran (Alireza Khalili et al. 2012) or Albert et al. (2009). These studies also examined the challenges that SAIs in developing countries needed to face in case of expanding its function into PA. A summary of the results coming from these studies indicated that (i) reform of public administration; (ii) economic, political and social factors; (iii) changes in the technical aspects of the audit and (iv) the ability and growth prospects of the SAI affect the formation and development of PA.

1.1.1.3. Research into factors impeding the process of PA's the formation and development

In addition to the studies mentioned above, there were many studies focusing on the obstacles to the development of PA (Daud 2007; Albert et al. 2009; Hui Fan 2012; Ferdousi 2012; Alireza Khalili et al. 2012 ...). Hindering factors were found out, including:

- Restrictions on public administration reform;

-The results of the traditional audit are continuous development;

- Lack of understanding of PA;

- Limited accountability;

- The ability of the SAI (capability of auditors, the ability to conduct Performance Audit of SAI)

- Characteristics of the objects being audited;

1.1.1.4. Research into factors affecting the choice of strategic development of Performance Audit of SAI.

These factors included (i) the choice of target of PA (ii) the choice of subjects, objects and scope of PA; (iii) the choice of the approach method and (iv) the choice of the methodology used in PA.

1.1.2. Vietnam studies

PA in Vietnam is still in its infancy. There were no studies relating to factors affecting the development of PA in Vietnam being published.

1.2. The achieved results and further research areas

1.2.1. The achieved results

(1) The affecting factors:

The author found out 28 factors including encouragement factors, hindering factors and factors affecting the choice of strategic development based on the overview of literature review. All of them can be categorized into four main groups including:

(i) There were 2 factors relating to the public governance reform and the limit of performing traditional function of audit;

(ii) There were 8 factors relating to economic, political and social factors;

(iii) There were 12 factors relating to the ability of the SAI. It includes two main groups of factors: (i) the Capability of auditors and (ii) the ability to conduct PA of SAI;

(iv) There were 6 factors relating to operational characteristics of the objects being audited.

(2) The purposes and the meaning of development of PA: This study helped auditee to enhance accountability and improve their operational efficiency.

(3) The development trend of PA

Some studies indicated a paradox that even though the demands are high, SAI in some developing countries cannot conduct PA or the level of PA is too low and there is a big gap compared to General Accepted Performance Audit theory (Albert et al 2009; Lonsdale et al. 2011; Ferdousi 2012; Hui Fan 2012);

Even though there were many countries having similar characteristics of economics, politics and culture, they so far chose different strategic development of PA with varying degree. However, most studies indicated that development trend of PA occurring around the process of public governance reform in these countries (Pollitt et al. 1999; Lonsdale et al. 2011).

1.2.2 Further research areas

Firstly, these studies limited on discovering and explaining the factors as well as their roles in the relation to the formation and development of PA. They did not identify connection among factors and did not determine which factors are directly affecting factors and which factors are encouragement factors;

Secondly, these studies focused mainly on qualitative methods to discover and explain the impacts of these factors on the formation and development of PA. These studies so far did not measure practically the degree of the influences as well as the roles of each factor to this process.

Thirdly, most of the studies conducted in developed countries that have different characteristics relating to economy and politics compared to that in Vietnam.

1.3. Conclusion

Investigation of factors affecting the formation and development of PA through the review of previous studies and state of affairs of conducted in the world and in Vietnam lead to an insight into the way to establish and develop PA as well as affecting factors to this process.

CHAPTER 2:

THEORY OF PA IN THE PUBLIC SECTOR

2.1. History of formation of PA in the Public sector

PA emerged earliest from the beginning of the 1940s in the United States and in its earliest stage it has various names. In the conference in 1986 among SAIs belonging to International Congress of Supreme Audit Institution of Africa 1986 (INCOSAI 1986), this type of audit was named as Performance Audit.

2.2. Definition and principle concepts referring to PA in Public sector

2.2.1. Definition of PA

There are many different definitions of PA and one of the most popular definition is “PA has been described as an independent evaluation of the economy and efficiency of audited operations, and the effectiveness of programs in the public sector”. (McRoberts & Hudson 1985; Parker 1990; English 1990; O’Leary 1996; Leeuw.F 1996; Thompson 1996; Guthrie & Parker 1999, Nath 2011, 1).

2.2.2. Concepts relating to PA

The thesis uses various concepts consisting of PA, including: economy, efficiency, effectiveness, assessment activities, financial information, accountability, audit institutions, new public management (NPM) and independence.

2.2.3. The role of PA

The fundamental roles of PA are (1) the enhancement of the responsibility for accountability or it can be named as the role of supervision and (2) the improvement of the operation efficiency.

2.3. Theoretical framework explaining the formation and development of PA in Public sector

2.3.1. New Public Management Theory (NPM)

New Public Management is a term referring to trend of public administration reform in countries of OECD in the early 1980s, starting from the United States and Britain to other nations. Unlike the model of traditional management, NPM emerged based on the fundamental principles, including encouragement and competitiveness in order to achieve goals such as improvement in efficiency, reducing waste of resources, increasing accountability and transparency by establishing clear objectives and to stimulate the management based on measuring the performance. To adapt well with the current demands, SAI also transfer tasks from validating data, financial information and its compliance with laws and regulations to assessing the economy, efficiency and effectiveness of operations in order to help governmental units improve their operation effectiveness and conduct accountability.

2.3.2. Agency theory and conception of accountability in public sector

Agency theory derived from economics theory developed by Alchial and Demsetz in the year 1972 and was developed further by Jensen and Meckling in the year 1976. This theory focused on the principles chose the agents on their behalf to perform tasks and the agents had to provide better choices for the agents. Agency theory is an theoretical background to explain the illegal existence of auditing in general and PA in particular with the aim to assure the accountability between the parties.

Along with the reform of public management, the responsibility for accountability has changed in the direction of explaining the achieved results. Thus, PA has changed to adapt to a new environment and is considered as the most effective method to achieve this goal.

2.3.3. Rational choice theory applying in the public sector

Rational choice theory originated from England, deriving from utilitarianism theory and passing neo-classical economics. The public sector is considered as a part of the economy constituting the national institution managed and controlled by the government represents the people in this country. Therefore, the government in each country must make decisions and take responsibility for using public resources to improve the welfare of the citizens (Broadbent and Guthrie 1992, Reference Nath, 2011).

2.3.4. Supply and demand theory

Supply and demand theory in microeconomics is a branch of neoclassical economics used to explain the formation and development of PA in public sector. PA only emerges when there is a demand and are qualified to perform it.

2.4. Research model of study and design analysis framework for research

2.4.1. Research model of study

Pollitt et al (1999) used input – output model to generalize the factors affecting the development trend of PA, including factors accounting for this type of auditing, internal factors such as the ability of SAI and external factors such as politics, economics, culture or society. As a result, SAI can develop strategic options to suit their national characteristics.

2.4.2. Design analysis framework for research

Based on the conceptual model of Pollitt et al (1999), the author classifies the factors into four groups as follows (i) economic, political and societal factors; (ii) “input factors” (resources); (iii) “operation factors” referring to the process of PA conducted in each SAI; (iv) “output factors” and “outcomes” (audit reports and the effects of audit opinions in audit reports)

2.5. Conclusion

PA is a type of auditing emerging in public sector when SAI expand their functions and roles in order to meet public’ demands.

CHAPTER 3:

RESEARCH METHODOLOGY AND METHOD

This chapter describes the research method chosen to answer the research questions proposed in the introduction.

3.1 Methodology and the collecting data

There are three methods commonly used research is qualitative, quantitative and a combination both of them. (Creswell et al. 2003). To find out the factors affecting the formation and development of PA in public sector in Vietnam, the author provides the process of research with a mix of qualitative and quantitative method. The data were collected during the period from 2010 to 2014, including primary and secondary data.

3.2. The process of analyzing data

3.2.1. The process of analyzing qualitative data

A qualitative study used a combination of methodology as follows (i) literature search; (ii) in-depth interviews with experts; (iii) real-life situations research in order to assess the level of development of PA in the public sector in Vietnam and identify the factors affecting the formation and development of this audit type (research question Q2, Q3, Q4).

3.2.2 The process of analyzing quantitative data

Quantitative research identifies and measures the impacts of each factor on the development of PA by developing and testing a multiple regression model (research question Q5).

CHAPTER 4:

RESULTS AND DISCUSSION

4.1. Results of the analysis and the survey in qualitative research

Through literature search: The formation and development of PA of SAV can be divided into two stages as follows:

- + The first stage from 1994 to late 2005 before the State Audit Law 2005 came into force;

- + The second stage from 2006 to now is considered as the stage relating to the formation of PA.

Results coming from the analysis of Results analyzed 41 audit reports, audit plans and documents pertaining to 2005 – 2013 period provide evidence of trends and level of development of PA.

The survey relating to two different situations having contents of PA provides evidence to identify the results of PA as well as the shortcomings, the challenges and the affecting reasons.

The author conducts an in-depth interview with experts through 5 main questions relating to the choices and the necessity of carrying out PA, the affecting reasons, the causes, the challenges and the solutions. The results of an in-depth interview point out that there are 28 factors affecting the formation and development of PA.

4.2. An analysis of the results coming from qualitative research

4.2.1. Factors affecting the formation of PA from 2006 to 2013

The author combines three data collection methods described above for the analysis. There are 6 factors affecting the formation of PA.

- The role of the donor;
- The role of the Auditor General of Vietnam;
- The changes in law and other regulations
- The roles of National Assembly and People's Councils at all levels

- The changes in the macro-economic policies;
- The poor management and pressure from the public.

4.2.2. The level of development of PA in public sector of SAV

The results of the analysis of audit reports for the period 2005-2013 provide evidences of the process of PA's development in the public sector in Vietnam:

- *With regard to the development trend:* SAV is expanding through a gradual transfer of audit functions from traditional audit to PA by increasing the size and the number of conducted audits, the number of auditors and by changing the objectives, content, scope, criteria and methods of auditing.

- *With regard to the level of development:* By comparing the level of development of SAV with a summary of the development stages of PA studied by Suzuki (2004), the author find out that the current level of development of PA of SAV is in the second stage in a four-stage development and the degree of development is in the fifth position in a ten-degree development.

4.2.3. The causes and challenges in conducting PA

There are 7 causes and challenges coming from the analysis of literature research, audit reports, real-life situations research, in-depth interview with experts as follows (1) restrictions on reform of

public administration, (2) restrictions on conducting of the traditional type of audit, (3) lack of understanding of PA, (4) accountability, (5) the ability of SAV, (6) operational characteristics of institutions being audited, (7) the viewpoint of PA's development.

4.3. A summary of factors affecting the formation and development of PA

The result of in-depth interview with experts indicates that there are 27 factors affecting the formation and development of PA.

There are two additional factors from preliminary research that are not identified by in-depth interview with experts.

There are four factors relating to the possibility of development of PA that are identified by real-life situations research.

Totally, there are 33 factors being identified in accordance with theory of PA. They are used to design questionnaires in quantitative research.

4.4. The results of the survey and the discussions of the findings relating to the quantitative research

There were 185 out of 220 valid questionnaires were used for quantitative research. According to the results of Cronbach's alpha for each group of factors, one out of 33 factors (observed variables) with a Corrected Item-Total Correlation is less than 0.3 that should be disposed. There are 32 factors left, used in Exploratory Factor Analysis (EFA).

The result of EFA indicates that there are 8 groups of factors representing for 25 observed variables as there are 7 observed variables being disposed due to their unsatisfactory conditions. Particularly, seven groups of factors are classified as independent

variables and one group factor is the dependent variable used for multiple regressions in the next step.

The method of analysis STEPWISE in SPSS 16 is used. All the results meet the requirements such as the hypothesis is verified in accordance with the model and the assumptions about the meaning of the regression coefficients, the variance of the error constant and the correlation among the independent variables are all satisfied. The result of analyzing multiple regression points out that there are four factors correlating with the possibility of PA's development. The extents of the positive impacts of these factors are as follows: political factor (X1: $\beta_1 = 0.244$), the ability of conducting PA of SAV (X6: $\beta_6 = 0.228$) and the Skills of auditors (X5: $\beta_5 = 0.198$). By contrast, the economics is the factor that has a negative impact on the development of PA (X3: $\beta_3 = -0.275$).

CHAPTER 5:

CONCLUSIONS AND THE ORIENTATION TOWARDS STIMULATING THE DEVELOPMENT OF PA IN PUBLIC SECTOR IN VIETNAM

5.1. Conclusion

5.1.1. Factors affecting the formation (emergence) of PA

The result of qualitative research identifies that there are 33 factors to be classified into four groups that have effects in the formation and the development of PA, including:

- (1) Economic, political and societal factors (11 factors);
- (2) The ability of SAV factors, including (i) the capability of auditors and (ii) the ability to conduct Performance Audit of SAV (12 factors);
- (3) The characteristic of auditee being audited factors (6 factors);
- (4) The viewpoints of development of PA factors (4 factors)

5.1.2. The level of PA's development of SAV

PA was established in public sector in Vietnam and is in its growth in transferring gradually of audit function from traditional type of audit to PA corresponding to the level of development of the countries in the late 1980s and early 1990s (second stage in a four-stage development and the degree of development is in the fifth position in a ten-degree development).

5.1.3. The reasons and challenges of development of PA

The development of PA is not high and the results of PA are limited and not commensurate with the objectives and requirements. There are 7 major reasons corresponding to 27 factors as well as the challenges in the development of PA, including:

- The limitations in the process of public governance reform correspond to one factor;

- The results of traditional auditing correspond to one factor;

- The lack of understanding of PA corresponds to two factors;

- The limitations in accountability correspond to one factor;

- The ability of SAV includes the capability of auditors and the ability to conduct Performance Audit of SAV, corresponding to twelve factors;

- Viewpoint on the development of PA from SAV corresponds to four factors.

5.1.4. Factors affecting to the development of PA

There are 13 elements in 33 factors in relation to the development of PA that are divided into four groups, consisting of (1) politics, (2) economics, (3) the ability to conduct of SAV and (4) the Skills of auditors. Particularly, economic and political factors affect the most to the development of PA but economic has a negative impact on it.

5.2. The viewpoints proposed and the orientation towards the development of PA

5.2.1. The viewpoints relating to the development of PA

Vietnam is a developing country that is conducting a reform of public governance. However, it still exist many common drawbacks such as its inefficient operation, corruption, waste of public resources in management and usage. As a result, the author suggests that it is necessary to determine the viewpoints of the development of PA in accordance with its characteristics as follows:

- It should be proactive in the development of PA;

- The need to have flexible viewpoints in development of PA;
- The need to balance between costs and benefits;
- The need to establish the role and position of PA is equivalent to the traditional auditing.

5.2.2. The orientation towards the development of PA

5.2.2.1. Regarding the support of the external environment for PA (political factor)

The studies summarized in Chapter 1 show that political barrier is the biggest challenge to SAI regarding the development of PA. However, if SAI receives the support from the National Assembly and Government, it can fulfill its duties efficiently. Based on this perspective combined with the limitations found in the qualitative research belonging to the political factor, SAV must appropriate route and steps to overcome challenges as follows:

- (1) Enhance the role of Auditor General of Vietnam;
- (2) Enlist the support and assistance of National Assembly and Government;
- (3) Stimulate the reform of public management through conducting PA;
- (4) Reduce the dependence on traditional audit results;
- (5) Select units being audited at the request of National Assembly and Government.

5.2.2.2. Regarding the improvement of conducting PA (Ability factor of SAV)

The results of state of affairs in qualitative research show many restrictions on the ability to conduct PA of SAV. Additionally, the findings in quantitative research also find out the factors stimulate the development of PA in Vietnam. As a result, to improve

the possibility of conducting PA, the author suggests some actions with the level of priority in the following order:

- (1) Select of appropriate audit topics;
- (2) Conduct the in-depth training relating to PA;
- (3) Carry out the new methods relating to organize PA;
- (4) Establish standards, procedures, manual guidance

notes relating to PA.

5.2.2.3. Regarding the enhancement of the Capability of auditors (Skills factor of Auditor)

The Skills of auditors correlates with the development of PA. As a result, it is first priority to establish a separate unit of PA that includes those who possess not only practical skills but also being trained thoroughly relating to PA.

5.2.2.4 Increase in the demand of PA (Economic factor)

The research results indicate that now SAV should focus more on the objective of improving the accountability rather than on helping business to enhance operational efficiency.

5.2.2.5. Design strategy for developing PA

Vietnam is a developing country and follows other countries in conducting PA. Therefore, SAV should choose step-by-step growth strategy from simple stage to complex ones strictly and rigorously. Accordingly, the first stage is to conduct some independent audit activities in business relating to PA with the support of foreign experts. Then, SAV should carry out independent audit activities in business relating to PA being in accordance with the capability of auditors and practical conditions and the implementation is performed carefully and rigorously.

5.3. Limitations and further research

The new research model that is constructed only confirms four factors, affecting the development of PA and explaining 25.7% of the variation of the development of PA. Therefore, subsequent studies are needed to add new factors to this model.

CONCLUSION

The PA is established and developed to assist governments in improving the accountability and stimulate the operational efficiency. It becomes the main task in the development process of the SAI in some countries in the world. In the trend of economic globalization, SAV have put in a great deal of effort at establishing and developing PA in order to stimulate the reform of public management in Vietnam and to meet the requirements of the trend of international economic integration. However, the establishment and development of SAV relating to PA is slow and sometimes being interrupted couples with the results of PA does not meet the expectations and are not in accordance with theories of PA.

The results of the survey indicate that even though the demand of PA in Vietnam is high, the level of development relating to PA is still in the first stage of formation. The internal factors including the possibility of SAV have greater impacts upon the development of PA rather than external factors such as political and economic factors. The findings of this research also explain why developing countries have a low level of transparency and accountability and non-synchronized legal system, having a higher need of PA. It is due to low supplies of PA.

In order to SAV develop PA successfully, it initially overcomes the limitations of its abilities and challenges coming from external environment that usually exist in developing countries. Accordingly, SAV should establish appropriate perspectives on the development and have a clear orientation towards selection of strategic development, content and specific route.

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