OLOF PETERSSON

Auditing knowledge management in democratic governance
Preface

Accountability is central to democratic governance, and Supreme Audit Institutions (SAIs) play an important role for democratic accountability, giving citizens, parliaments, and stakeholders insights to the functioning of government, providing assurance on how well public resources are used. One vital resource in democratic governance is knowledge, and its rational use in the formation and implementation of policies. However, can we be sure that knowledge in democratic governance is used, managed and disseminated to achieve successful policies?

In several of the Swedish National Offices’ audit reports, as well as in other evaluations of the public sector, there are indications that policies can benefit from an enhanced use of underlying knowledge, thus, contributing to a learning process in democratic governance. When knowledge systems work as intended, democratic governance should promote a continuous learning process, duplicating success rather than failure.

In this report, professor Petersson discusses the role of SAIs in relation to knowledge management in democratic governance. SAIs are described to have a quite unique role in providing independent insights to the functioning of government. The ideal of “enlightened understanding” serves as the guiding principle. Petersson provides the reader with an exposé of deficiencies in governance relating to knowledge and to knowledge management. Furthermore, he envisages SAIs to take on the role of “guardians of reason” in democratic governance by auditing knowledge management. The report concludes that SAIs can have an important role in auditing knowledge management in democratic governance. But in order to do so, SAIs must address strategic as well as theoretical and methodological issues. How this can be done is briefly outlined in the concept of “Reflexive Auditing”.

I find the ideas presented in the report as a valuable contribution to the discussion on the role of SAIs in relation democratic governance - a matter that constantly needs to be discussed, amongst SAIs but also amongst stakeholders. From my perspective, such a discussion will enable us to further develop SAIs contribution to the learning process of democratic governance.

Please note that the views and opinions expressed in the report are those of the author and do not necessarily reflect the views of the Swedish National Audit Office.

Claes Norgren
Auditor General of Sweden
# Content

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preface</td>
<td>1</td>
</tr>
<tr>
<td>Abstract</td>
<td>3</td>
</tr>
<tr>
<td>About the author</td>
<td>4</td>
</tr>
<tr>
<td>Auditing knowledge management in democratic governance</td>
<td>5</td>
</tr>
<tr>
<td>Knowledge management and enlightened understanding</td>
<td>7</td>
</tr>
<tr>
<td>Assessing the quality of democratic knowledge systems</td>
<td>11</td>
</tr>
<tr>
<td>Auditing knowledge systems in democratic policy-making</td>
<td>14</td>
</tr>
<tr>
<td>Toward a theory of reflexive auditing</td>
<td>15</td>
</tr>
<tr>
<td>References</td>
<td>18</td>
</tr>
</tbody>
</table>
Abstract

Democratic institutions can be designed in order to promote enlightened citizens and intelligent government. In this case democratic governance works as a dynamic learning process. The aim of supreme audit organizations is to provide decision makers and citizens with independent, objective and reliable information. Supreme audit institutions can be crucial to the quality assurance of knowledge systems in democratic government by monitoring how information is produced and used in the policy process. However, this task is complicated by the presence of several different evaluation criteria. Furthermore, audit institutions must be able to apply the lessons of knowledge management on the auditing process itself. Democratic governance can be enhanced by this type of reflexive auditing.
About the author

Olof Petersson received his Ph.D. in political science at the University of Göteborg, Sweden, in 1975. He served as a professor at the Department of Government, Uppsala University, until 1997. He then was appointed to a position as research director at the Centre for Business and Policy Studies, SNS, in Stockholm. Olof Petersson is now part-time consultant at Gullers Grupp in Stockholm. He has authored several books on public administration and comparative government and has also participated in government commissions on institutional reform in Sweden. Last year he contributed to the Swedish National Audit Office with a special report: “The global rescue of the nation state: How supreme audit institutions can improve accountability in democratic governance”. Personal web site: www.olofpetersson.se.

The author wants to thank Michele Micheletti (University of Stockholm), Lennart Nordfors (Gullers Grupp), Johan P. Olsen (University of Oslo) and staff members at the Swedish National Audit Office for their comments on an earlier draft.
Auditing knowledge management in democratic governance

Supreme audit organizations can play an important role in the dynamics of democratic governance. As pointed out in the professional guidelines of supreme institutions, power and resources can be mismanaged or misused, leading to an erosion of trust that can undermine the essence of the democratic system. It is therefore critical that the citizens of a country are able to hold their representatives accountable. Democratically elected representatives can only be held accountable if they, in turn, can hold accountable those who implement their decisions. An important component of the accountability cycle is an independent, effective and credible supreme audit institution to scrutinize the stewardship and use of public resources (ISSAI 12, www.issai.org).

As long as supreme audit institutions have a truly independent status they not only improve public sector administration but also enhance the enlightened understanding of citizens. According to the fundamental principles of performance auditing, supreme audit institutions should provide decision makers and citizens with “independent, objective and reliable” information. Thus, performance auditing creates incentives for change by serving as a basis for learning and improvements (ISSAI 300, p.9, www.issai.org).

One important aim of performance auditing is to provide new information, analysis, and insights. Performance auditing can deliver new knowledge by providing broader and deeper analysis, making existing information more accessible to different stakeholders, and providing authoritative conclusions and recommendations based on audit evidence (ISSAI 300, p. 10, www.issai.org). In this way, supreme audit institutions can contribute to the assessment, and possibly even reduction, of the risks inherent to democratic policy making.

The increasing importance of supreme audit institutions is partly due to what can be called the paradox of the knowledge society. The innovations of communication technologies have undoubtedly led to a vast increase in data creation, information dissemination and processing capacity. However, information alone does not create knowledge. There are also worrying signs that the quality of knowledge in the political decision-making process is deteriorating. One explanation for this development is the current transformation of the mass media. The advent of democracy went hand in hand with the rise of journalistic mass media and particularly professionally edited newspapers. Today these traditional media institutions are under heavy pressure as
they lose advertising revenues and younger generation of readers. The question is what happens when journalistic mass media break down: what replaces the old meaning systems? It has recently been argued that several of society’s “gatekeepers of reason”, such as the press, schools, and government institutions, gradually lose their capacity to set bounds of reason and operate as authoritative filters in the flow of communication. This new era of narrative driven discourse and social network politics has been characterized as “the democratization of truth”. Science is increasingly being regarded as just another “ism” (Bennett 2013).

Even in Sweden there are signs that the quality of information in the policy process is declining. Sweden was previously characterized as having a fact-based style of political decision making. Policy making in Sweden was said to be deliberative to the extent that problem-solving was left to well-trained specialists. Moreover, Swedish politics was considered as rationalistic in that great efforts were made to generate the fullest possible information about political issues. It was also seen as open in the sense that all interested parties were consulted before the final decision. Furthermore, it was viewed as consensual in that broad agreements were highly valued (Anton, 1969).

Today the situation has changed in several important aspects. The time span of the policy-making process has become much shorter. Only in exceptional cases are commissions of inquiry allowed to devote several years to investigate political problems. Swedish politics has changed from a long-term sounding out style of policy making to one characterized by a short-term and iterative trial-and-error method. Although the quest for factual correctness and disdain for emotional arguments, captured by the Swedish word “saklighet” (Sachlichkeit, factualness), is still central to the political culture of Sweden, political decisions today are taken on a much less solid factual ground (Petersson 2014). The budget information given by the Government to the Parliament is lacking sufficient clarity. Results are not properly reported and it is difficult to evaluate the connection between resources, performance, effects, and budget proposals (“Kartläggning av regeringens resultatredovisning till riksdagen i budgetpropositionen 2012”, Sveriges riksdag and Regeringskansliet, 2013).

This development points to an important role for supreme audit institutions in the future. Their present role can be described as “speaking truth to power”, to borrow the title from a classic book on the art and craft of policy analysis (Wildawsky 1979). Whereas supreme audit institutions will still retain their mission in relation to legislatures and government bodies they now also face the challenge of “speaking truth to citizens”. It has been argued that multilateral cooperation between supreme audit institutions can enhance the quality and impact of national audits. This type of international cooperation can serve as an example of what has been called “democracy-enhancing multilateralism” (Petersson 2013).
Knowledge management and enlightened understanding

“Sapere aude! Have courage to use your own reason!—that is the motto of The Enlightenment.” These are the words of Immanuel Kant, to be found in the introduction to his classic essay “Was ist Aufklärung?” (1784). Enlightened understanding is the hallmark of a democratic society. Democratic institutions can be designed in order to promote enlightened citizens and intelligent government. In this case democratic governance works as a dynamic learning process.

The concept of “knowledge management” was originally developed as a tool for the design of information systems in firms and organizations. Some of the basic ideas are also applicable to democratic nations with large and heterogeneous populations. The knowledge of citizens and decision makers is dependent on how information is acquired, stored, retrieved, and analyzed.

The organization of knowledge production shares some basic traits in all democratic systems but there are also some characteristic differences between countries. The concept of “knowledge regime” has been introduced to capture some of these differences. Knowledge regimes are defined as sets of actors, organizations, and institutions that produce and disseminate policy ideas that affect how policy-making and production regimes are organized and operate. It has been argued that liberal market economies with decentralized, open states (such as the United States) tend to have market-oriented knowledge regimes that are highly competitive and often partisan and adversarial. Liberal market economies with centralized, closed states (like Britain) also tend to have competitive knowledge regimes, but the level of partisan competition is tempered politically by public funding for knowledge producers in civil society and by the state’s own in-house analytic capacities. Coordinated market economies with decentralized, open states (for example Germany) tend to have relatively more consensus-oriented knowledge regimes as a result of having political economies with strong associational and corporatist institutional arrangements, parliamentary systems that often produce coalition governments, and much public funding for knowledge producers. Finally, coordinated market economies with centralized, closed states (with France being a typical example) tend to have statist-technocratic knowledge regimes where much policy-relevant knowledge is produced in-house by the state (Campbell & Pedersen 2007).

Obviously, constitutional rules are important for the organization of knowledge production. In federal systems knowledge production tends to be distributed between several territorial tiers while the decision-making process of unitary states is more centralized. Countries with strong civil societies often have a pluralized communication system while state-centered polities exhibit a more monopolistic structure in the preparation of political decisions. There are also some characteristic differences between presidential and parliamentary systems. In presidential systems
based on the principle of separation of powers the task of preparing political decisions is shared between the executive and the legislature. For example, the committees of the United States Congress have vastly more resources than the average committee of a European parliament.

Even though parliamentary systems conform more to a monistic than the dualistic structure of presidential regimes it is also obvious that the parliamentary form of government is based on some type of division of labor. In general, the responsibility for political knowledge production primarily resides with the cabinet and its ministries. In actual practice political innovation and reform proposals might stem from political parties and politically affiliated organizations, such as interest organization and think tanks. However, the declining membership of political parties means that this grass-roots link of political representation is in many cases superseded or even replaced by the influence of lobbyists and public affairs consultants.

The role of legislatures in the knowledge management of parliamentary systems is often indirect. Legislation is normally based on government bills prepared by the executive. Even when legislatures are permitted to launch their own initiatives the bulk of legislation stems from cabinet initiatives. Nevertheless, one crucial task of legislatures is to hold the executive accountable. Parliamentary control requires a constant flow of information. Some of this information is gathered by bodies within the legislature itself. Other important sources are public agencies and independent institutions. The executive is also required to supply parliament with information. The duty of the executive to inform the legislature can be either active (when the initiative comes from the cabinet or an individual minister) or passive (when the legislature demands specific information from the executive). Serious political conflicts can arise in cases when the information furnished by the government to the parliament is considered inadequate or even misleading (Smith 1997).

Last, but not least, legislatures can also rely on supreme audit institutions as an important producer of knowledge. According to the constitutional rules of many democracies the supreme audit institution is an independent institution with the legislature serving as its principal. Thus, the legislature is defined as the primary recipient of audit reports. The role of supreme audit institutions in supplying information to political decision makers can also be indirect. This occurs when national auditors supervise the knowledge production of the democratic system. In this way, national auditors can facilitate the parliamentary control function of legislative assemblies. Ultimately, the overall architecture of the knowledge system of democratic government might depend on how well supreme audit institutions fulfill this supervisory task.
This task is further complicated when policy making takes place in transnational, multi-level settings. The rise of global governance has created some severe accountability problems. A multitude of organs, including states, subunits of states, international organizations, and non-governmental organizations might simultaneously be involved in the decision making and the implementation of, for instance, environmental and climate politics. In some cases there are several different types of audit institutions, such as supreme audit institutions at national state level, the regional audit institutions of federal states, and transnational audit bodies. One example is the intricate interplay between the plethora of audit institutions within the European Union. Furthermore, the creation of a European banking union might lead to an audit gap if the supervisory tasks of the ECB are not properly audited (“Newsletter on EU governance and its implications for Member States”, Netherlands Court of Audit, February 2014). In a similar vein, The European Parliament has recently expressed its opinion that the EU Court of Auditors should devote more resources to the examination of whether economy, effectiveness and efficiency have been achieved in the use of the public funds (European Parliament resolution of 4 February 2014, 2012/2064 INI). Also in other areas of transnational governance the situation is characterized by an audit deficit. Sometimes there is not a clearly defined global demos or public. Problems of delegation can, therefore, arise when it is difficult to exercise control over agents to whom important tasks have been assigned. This is why effective accountability at the global level will require new and pragmatic approaches (Grant & Keohane 2005).

The specific design of democratic knowledge systems has proved to be controversial. Not so many years ago optimistic planners recommended large-scale programs relying on experts and computer algorithms in order to find the most efficient solutions to political problems. The role of elected politicians was reduced to the task of formulating general goals and guidelines, whereas the implementation and choice of specific means was left to bureaucrats and experts. This philosophy relied heavily upon the use of computers and numerical methods such as linear programming and operations management. From the 1960s and onwards many countries introduced such methods in order to increase the efficiency of the public sector. However, it did not take long until these optimistic hopes were replaced by a more sober and realistic view on information management in the public sector. The ideas behind the planning, programming, and budgeting systems turned out to be based on a simplistic view of the process of decision making in the public sector and the nature of public policy decisions. Furthermore, these management tools carried the unwarranted assumption that all important public goals are quantifiable (e.g. Havens 1976).

The next generation of management models tried to retain the element of central control while at the same time relaxing the unrealistic assumption that complete and quantitative information is available to the central decision makers. Instead, management by objectives relied on the constant feedback of information from the
local level back to the center. Attention gradually moved from setting objectives to monitoring results. Performance management became the key concept. Inspired by corporate government in competitive markets, centralized control was to be combined with decentralized management. This solution became technically possible only with the availability of powerful computers and advanced methods of data processing. Among other developments, public services were disaggregated into corporate-like entities. Services were to be contracted out with clear time limits. The emphasis was also put on policy output. Accountability was to be based on formal indicators and measures of success (Pollitt 1993).

This philosophy of New public management has led to some disappointing effects. Attention is primarily focused upon results which are possible to measure in terms of quantitative indicators. Researchers have found another paradox of administrative development. New public management might in fact involve more rather than less rules-based, process-driven bureaucracy, as a result of increasing oversight and regulation (Hood 2001).

The proliferation of performance indicators has led to a situation which has been characterized as an “audit society”, “audit revolution”, or even “audit explosion”. It has been claimed that the auditing methods of New public management are far from neutral and passive instruments. Instead they actively construct the contexts in which they operate. The administrative environment is forced to conform to the standards of one particular management model. Qualitative knowledge is shunned in favor of quantitative information. Internal checks are considered less useful than external control. Informal and trustful relations are seen as less reliable than formal oversight under the assumption of low mutual trust. One solution would be to replace long distance, low trust, quantitative, disciplinary and ex post forms of verification by private experts with local, high trust, qualitative, enabling, real time forms of discussion with peers. The purpose would be to enable rather than inhibit public dialogue (Power 1994, 1997).

According to the current opinion among scholars as well as practitioners policy-relevant knowledge is primarily acquired through a pragmatic learning-by-doing approach. There seems to be a widespread agreement that successful policy-making is based on a willingness to learn from experience. However, social scientists have pointed out that experiential learning has some serious pitfalls. The replication of success, whether through trial-and-error learning, imitation, or selection, can be hampered by the complexity, ambiguity, stochastic variability, and limited sample sizes of most learning situations. The stories and models of policy-making often simplify complex causal relations by reducing the number of factors involved, ignoring second-order and third-order effects, and disregarding feedback effects. The events of ambiguous experience are given meaning through flexible interpretations. In short, experience is not a perfect teacher (March 2010). Ambiguity challenges simple models of accountability, which are based on a strict command and formal
delegation. However, the organization of accountability in contemporary democracies can be made possible through varying degrees of institutionalization, specialization and coordination (Olsen 2014).

Assessing the quality of democratic knowledge systems

The assessment of knowledge systems is highly dependent on the choice of evaluation criteria. There is no reason to assume that there will ever be a consensus on what should be the ultimate criteria for the quality of knowledge systems. In fact, the very contestedness of evaluation criteria is an integral part of a pluralistic democratic discourse. The existence of diverse criteria allows for different perspectives and a creative debate between alternative interpretations. This also means that the audit of knowledge systems has to be open to the fact that not only one but several evaluation criteria can be applied.

Academic research would stress epistemic criteria such as logical coherence, empirical evidence and comprehensiveness. Taken to the extreme this type of criteria would lead to an intellectualist and scientistic view of the political process, related to a certain type of utopia, as well as dystopia, where political power resides with a philosopher king or some other kind of enlightened ruler. While admitting that government bills are not and should not be doctoral dissertations it is also the case that academic criteria might play an important role in the preparatory stages of political decision making. Crucial political choices have been made on the basis of recommendations from scientists. The Intergovernmental Panel on Climate Change is an obvious example but there are also other areas such as health care, food safety, energy politics, economic policy, and information technology where the advice of scientists have been decisive.

This is not to say that scientific results and other type of expert knowledge are always used as guidance in order to improve a rational decision-making process. On the contrary, policymakers might also value expert knowledge for other reasons. Scientific results can be used to lend authority to preferences of political decision makers or to signal their capacity to make sound decisions (Albæk 2004, Boswell 2009, Ahlbäck Öberg & Öberg 2012). This means that supreme audit institutions should not only register that expert knowledge is used in the decision-making process but also investigate more fully how this knowledge is used.

Auditing policy areas with significant scientific input are often problematic. The audit institution might decide to take the research base for granted and concentrate its investigation on the interpretation and implementation of the information supplied by the scientific community. However, the scientific support for a specific policy choice might actually be weaker than proclaimed. Research results can, for example, be marred by data deficiencies, measurement problems, interpretation fallacies, and biased conclusions. The audit institution then faces the daunting task of questioning
scientific research, for example by submitting results for renewed peer review or commissioning second-Opinions.

In a more general sense there is an important parallel between scientific institutions, administrative agencies, and supreme audit institutions. They are all committed to the search for “truth”, or at least verisimilitude, meaning that factual arguments are honored and empirically false or logically incoherent statements are shunned. In this way the auditing process can become part of rational discourse and the enlightenment project aiming at well-informed citizens and intelligent government. Ideally, supreme audit institutions and the scientific community should be able to form a joint venture as the guardians of reason.

In some policy areas legal demands must be met before a political decision is made. One example is Environmental Impact Assessment, EIA. Such an assessment has been defined as “the process of identifying, predicting, evaluating and mitigating the biophysical, social, and other relevant effects of development proposals prior to major decisions being taken and commitments made” (International Association for Impact Assessment 1999, www.iaia.org). The European Union EIA Directive not only calls for description of a project and its significant effects on the environment but also an assessment of the current state of knowledge in order to identify areas of weakness in knowledge and suggest focus areas of future research (Directive 2001/42/EC).

Similar legal requirements can also be found in other policy areas. The aim of Regulatory Impact Analysis (RIA) is to systematically identify and assess the expected effects of regulatory proposals. This particular method is based on determining the underlying regulatory objectives sought and on identifying the policy interventions that are capable of achieving them. These “feasible alternatives” must all be assessed, using the same method, to inform decision makers about the effectiveness and efficiency of different options and enable the most effective and efficient options to be systematically chosen (Introductory Handbook for Undertaking Regulatory Impact Analysis, www.oecd.org).

The requirements of impact assessment could be seen as political meta-decisions, in certain respects comparable to constitutional rules. Political decision makers agree upon the rules and procedures which regulate the political decision-making process. The aim is to enhance the quality of information available before important policy choices are made. The legal requirements defined by impact assessments could be more or less stringent, from strict legal norms enforced by courts of law to more lenient recommendations open to various interpretations. Supreme audit institutions can obviously play a very important role in monitoring the use of impact assessment, thereby reminding decision makers about their commitments to better policy making.
Knowledge systems can also be evaluated by organizational criteria, which pertain to the tasks, resources, and accountability of knowledge-producing bodies and agencies. In very general terms, all democratic systems share some common traits. The executive, including ministries and administrative agencies, has the primary responsibility for the preparation of new legislation. There are, however, important variations within this standard model of political decision making. The executive might fail to fulfill the criteria of a unitary actor. For instance, coalition governments and minority governments may not be able to produce coherent and solid ground for decision making. Furthermore, legislative bodies in some countries are able to make independent contributions to the knowledge basis of political decisions. One example is the Congressional Budget Office, which provides economic information to the United States Congress. Another example is the German type of investigative committee, Untersuchungsausschuss, which gives a parliamentary body wide-ranging powers to investigate specific cases of mismanagement. In other countries, where legislatures lack this kind of resources, the power of knowledge production is more or less entirely in the hands of the executive.

While most countries rely on permanent institutions to prepare legislative and executive decisions there are also situations where temporary bodies are set up to gather information and formulate policy alternatives. Such commissions of inquiry are an integral part of the political systems of Sweden and Norway and, to a certain extent, Finland, even though there are signs of their decreasing importance in later years (Petersson 2014). One also has to recognize that significant input to the policy process can originate from sources outside the public sector. For instance, private sector think tanks are an integral part of the U.S. political process and play an increasingly important role in European policy making.

The task of supreme audit institutions becomes even more complicated as policy making transcends national borders. Policy alternatives are sometimes formulated in complex bargaining structures, involving intergovernmental organizations, national ministries and non-governmental organizations. Even when formal institutions are set up, such as EU, WTO and the Kyoto protocol, informal structures might still be crucial to the final outcome. Effective auditing would require transparent policy making and knowledge about the knowledge basis for these transnational decisions.
Auditing knowledge systems in democratic policy-making

Supreme audit institutions can be crucial to the quality assurance of knowledge systems in democratic government. The task of supreme audit institutions is certainly not to replace the knowledge-producing bodies in the public sector but to monitor how knowledge is produced and used in the policy process. *Ex ante* audits could assess the quality of policy input such as the travaux préparatoires available to the legislature before a new law is passed. *Ex post* audits could assess the quality and utilization of policy output such as measures of goal attainment. The proliferation of performance metrics, boosted by the philosophy of “new public management” and “management by objectives”, obviously pose a challenge for supreme audit institutions. While the task of the auditor is eased when public agencies begin to evaluate themselves, the task also becomes more demanding. Audit institutions must develop new tools for second-order analysis of performance measures and the use of knowledge in policy making and public administration. This calls for theoretical as well as methodological reassessment of current audit procedures.

In this wider perspective, the task of supreme audit institutions is to improve the learning process of democratic governance. In the audit society every agency within the public sector is supposed to improve the quality of their services by constantly checking their own output. As is well-known from both practical experience and social research, this type of experiential learning is very difficult. Several fallacies are possible (Jacobsson & Ivarsson Westerberg 2013, March & Olsen 1975). For example, the knowledge base for drawing conclusions about output and performance might be narrow, biased, or even non-existent. The auditor could then assist the agency by improving the validity and reliability of the data collected and the quality of the assessment reporting. It might also be the case that output reports are misunderstood or not even used at all as a feedback mechanism. This is why auditors not only should assess the content but also the actual use of performance measures and quality reports. Audits would then also have to observe that decision makers assess and use feedback information in an open and objective way and not simply fall back onto old rituals and routines.

In fact, criticism of the deficient knowledge base of public policy has become a recurrent theme in many audit report reports. After investigating the implementation of climate policy the Swedish National Audit Office concluded that the government did not have an overview of the costs and effects of different measures that were used to reduce emissions. This meant that policymakers were unable to compare different policy options and coordinate agencies and other actors (Riksrevisionen 2013:19). Similar conclusions were drawn from the audits of investments in transport infrastructure. Decisions about large infrastructure programs were taken without proper information or cost calculations. Possible benefits were overestimated and future surplus costs were underestimated (Riksrevisionen 2012:21). When auditing the responsibility for financial management the Auditor General of New Zealand
found that the Treasury lacked the necessary knowledge about government performance. Furthermore, it lacked sufficient capability and capacity to inform, advise, review, and intervene to improve financial management (Reviewing financial management in central government, Office of the Auditor-General, Wellington, 2012).

There are also examples of more comprehensive audits of evidence-based policy making. In the annual report to the parliament the General Auditor of Finland some general conclusions were drawn from the critical observations of the knowledge base of public decision making. The report found that the information systems and management procedures of the central government were products of history and not adapted to current and future needs. Moreover, too much attention was given to regulatory details while the capability for adaptive and flexible decision making was neglected. The auditors called for an innovative mode of governance, using modern information systems and the network society. According to the auditors, it was the task of central government to initiate such a new and intelligent governance process (Statens revisionsverks berättelser till riksdagen, B 18/2013 rd).

**Toward a theory of reflexive auditing**

Knowledge audits should be based upon reliable systems for acquiring, storing, retrieving, and analyzing data about knowledge management in the public sector. In order to develop adequate methods for auditing knowledge systems supreme audit institutions must rely on meta-level strategies and apply the lessons of knowledge management on the auditing process itself. This means that auditing contains an element of reflexivity. Thus, auditing as a learning process should be focused on the learning process of the democratic system.

Reflexive auditing will be more common as public agencies gradually turn into learning organizations. The old hierarchical and rule-governed model of public administration is being replaced by a model based on the idea of management by results. Public agencies are to learn from their own experience by developing different types of self-audits. The philosophy of New public management favors quantitative output indicators but there are also many other ways to capture the performance of public agencies and the service delivery of the public sector.

As a consequence, auditing will take place at two separate levels: agency self-audits and supreme audits. Agency level self-audits might not fulfill the strict standards of supreme audit institutions but they share some fundamental similarities when it comes to method and purpose. Auditing can be seen as feedback mechanism allowing an actor to monitor performance and results according to specific criteria.
However, the proliferation of self-audits poses a challenge to supreme audit institutions. The traditional role of performance auditing is increasingly taken over by public agencies themselves or specialized evaluation and inspection boards in different policy sectors. Supreme audit institutions face a strategic choice. One alternative is to limit the auditing role and become one among many audit bodies. Another alternative is to develop a methodology for meta-level auditing. A theory of reflective auditing could facilitate the development of such an advanced role of supreme audit institutions. The open and self-critical approach inherent to reflexive auditing might also strengthen the legitimacy of supreme audit institutions.

In order to pursue systematic comparisons, different strategies could be combined. Comparisons across time within one country could, on the one hand, yield knowledge about the dynamic learning process in that particular polity. Comparisons across different countries could, on the other hand, facilitate systematic learning from knowledge management in other democracies. Comparisons between different policy sectors within one country might not only be methodologically fruitful but also contribute to a comprehensive understanding of the policy-making process and counterbalance the narrow focus of sector specialization.

Moreover, the auditing of self-audits must take into account that auditing involves a process as well as performance and results. The results of self-audits might serve as input for investigations carried out by the supreme audit institutions. Performance audits based on such output measures could yield additional insights and give administrators and politicians a wider perspective on the operation of individual agencies. Self-auditing viewed as a process invite supreme audit institutions to serve as a methodological critic. The object of the auditing process would then be the design, organization and implementation of the feedback mechanisms developed in order to monitor the performance of public agencies. The cumulative knowledge about knowledge-producing tools in the public sector would give important insights into the general operation of democratic systems.

The task of the auditor of self-audits could also include studies of the actual use of performance measures. This means that supreme audit institutions would be able to trace the preparatory works of new legislation and determine whether and how much of the background information is a product of wishful thinking or biased estimates and how much is in fact based on actual experience as captured by performance data such as audit reports.

The role of supreme audit institutions is not only to assess the risks of the democratic policy making process but also cope with the risks inherent to the auditing process itself. According to international guidelines auditors should actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users. Dealing with audit risk is embedded in the whole process and methodology of performance audit (ISSAI 300,
p. 28, www.issai.org). The self-critical approach intrinsic to the management of audit risks is an important ingredient to reflexive auditing. Combined with effective and proper communication such an open attitude can reinforce the legitimacy of supreme audit institutions among citizens and other stakeholders.

The role as a meta-auditor would reflect on the auditing process of the supreme audit institution itself. Reflexive audits must necessarily include a component of self-reference. Only a methodologically advanced auditing process can produce credible audits of the self-audits of public agencies. First-level (i.e. agency level) and second-level (i.e. supreme audit level) audits can be mutually beneficial if they are seen as integral components of the learning process of democratic governance.
References


