Value for Money and Audit Practice: Lessons and Facts from the Literature

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Abstract: The purpose of this research article is to review the existing body of literature on the Value for Money (VfM) audit focusing primarily on the direct impact of the organisational reform on public sector auditing practice, the issue of accountability, and the factors affecting auditors and clients perceptions of VfM audit implementation. The study examines the issue of VfM audit from various scholars' points of view, reviewing papers on a topic-by-topic basis. The authors synthesize the views of these scholars to produce a coherent overall picture of the VfM audit practice. The analyses reveal that VfM audit is becoming a corner stone for overseeing the services offered by the public sector and there is more emphasise on accountability. Auditors are given more powers to implement VfM audit effectively and have an impact on the management styles used in the public sector organisations. Many arguments, however, are made against the reform, such as causing many constraints towards the management of public sector services. The views presented in this paper are based on findings drawn from other studies, which do have their own limitations. The analyses presented in this article can be used by practitioners as guidance to identify gaps in the current VfM audit practice and by academics to carry out further investigations into this topic. The study originality is drawn from comparing and contrasting the research findings of what we believe the most influential scholars in this field of study.
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1- Introduction

The study examines the most influential research papers on Value for Money (VfM) audit following the organisational reform initiated to improve the use and management of services offered by public sector organisations. The reform consists of a cluster of ideas borrowed from the conceptual framework of administration practices in the private sector (See: Asenova and Beck, 2010; Grosso and Van Ryzin, 2012; Overman, S., 2013). It emphasises on cost control, financial transparency, further autonomy for various sub-units in an organisation, the decentralisation of management authority, the introduction of quasi-market mechanisms separating purchasing and providing functions via internal contracts and the enhancement of accountability to customers for the quality of service via the creation of performance indicators (Power, 1999; Grosso and Van Ryzin, 2012). Accordingly, the ambit of public sector audit has been expanded, particularly in the case of managerial accountability. Auditors under this organisational reform are required to evaluate management performance and comment on issues such as the economy, efficiency, and effectiveness of the deployment of public resources in pursuance of programme objectives (See: Glynn and Murphy, 1996; Arnaboldi and Lapsley, 2008; Grönlund et al., 2011).

Power (2000, p.111) refers to this expansion of the auditors roles as an "Audit Explosion", and emphasizes on the necessity of carrying out more research in order to examine many claims in relation to this phenomenon. Thus, the review of the existing literature will be confined as far as possible to the factors influencing VfM audit practice and the different arguments given by scholars on the strengthens and weaknesses of the organisation reform over public sector auditing. In order to achieve a better view of the change in audit practice within the public sector organisations this research article examines the aspects of auditor's role in relation to VfM audit both before and after the reform.

The article is organised in seven sections including the introduction. The second section explores the historical development of the VfM audit and the organisational reform of the UK public sector institutions. The third section reviews the key themes and aspects of the reform on the public sector auditing. The fourth section discusses the direct effect of the reform on accountability. The impact of the reform on the audit practice and role of auditors is examined in details in the fifth section. The sixth section reviews the literature related to the perceptions of the external auditors and their clients regarding the VfM audit and factors used by auditors in assessing public sector organisations' performance. Section six is composed of the literature review summary, a personal evaluation and comments on the literature, as well as the identification of gaps in the literature which this research attempts to narrow. Finally, section seven aims to describe an appropriate theoretical framework, which would help in answering the questions posed by this study.

2- Historical development of VfM audit and organisational reform

The origins of audit work covering issues related to the assessment of economy and efficiency in the UK public sector administration is dating back to World War I and the post-war crises (Normanton, 1966: 201). However, most of the key developments in this area took place during the 1970s following a dramatic increase in public expenditure in the UK public sector, often by more than ten percent per annum. This period was also characterised by high inflation. The Conservative Government came to power with a manifesto which resolved to improve efficiency and minimise waste in public sector expenditure. To achieve these objectives, they attempted to put in place a strict financial policy including the use of cash limited budgets, cash planning, enhanced scrutiny and introduction of expanded audit mandates at both central and local government levels to assess the efficiency of the public services (Glynn, 1985). As such, the word ‘audit’ began to be used frequently by politicians, regulators and consultants in many different fields: health and safety, medicine, education, intellectual property, environmental management as well as the traditional financial auditing area. As a result, VfM auditing emerged as powerful tool with which to reform public sector institutions (Power, 2000).

In 1979, an Efficiency Unit chaired by Lord Rayner was established with the support of five to six full-time civil servants. The main responsibilities of this unit were to advise the Prime Minister and other ministers in the government on the promotion of efficiency and elimination of waste. It was also expected to produce specific recommendations for actions within government administration (Glynn, 1985).

The early 1980s saw the introduction of the VfM audit process in an extensive manner involving the assessment of the economy, efficiency and effectiveness. Specifically, it signified the beginning of a shift in interest from the measurement of input resources such as money, beds and staff to a concern in measuring the output, that is what such input was instrumental in achieving (Glynn et al, 1996).

Section 15 of the Local Government Finance Act of 1982 lays out for England and Wales, the general duties of the auditor in local government. These duties are to satisfy that the audited body has prepared adequate arrangements to safeguard economy, efficiency and effectiveness in the use of public resources, and to report on matters of public interest that come to his/her attention (Glynn, 1985). This legislation was followed in 1983 by a National Audit Act, emerging from a debate started in 1980 when the government issued a green paper entitled ‘The Role of the Comptroller and Auditor General’ (Cmnd. 7845). The legislation granted the Comptroller and Auditor General a remit as defined by statute to carry out “examinations” into the economy, efficiency and effectiveness with which departments or other defined bodies in the UK central government have used their resources in discharging their functions (House of Commons Library Research Division, 1992: 34).

In 1983 the UK government created the Audit Commission (AC) for England and Wales under the terms of the Local Government Finance Act of 1982. It also introduced VfM audits as statutory duties for the commission. The AC has responsibility for undertaking VfM audits (carried out either in-house or sub-contracted to professional accounting firms in the private sector) of local government organisations, related bodies and operational branches of the National Health Service in England. One year later, on 1st January 1984, in order to carry out VfM audits in central government, the National Audit Office (NAO) was also established under the terms of the National Audit Act of 1983 (Lapsley and Pong, 2000).

In the last two decades the manifesto of the Labor government (which succeeded the Conservative government in 1997) is the emphasis on VfM audit. This approach draws on the preceding government’s policies of advocating efficiency auditing and expanding the policy to encompass what it calls ‘Best Value’, defined in terms of four key elements: (1) accountability; (2) transparency; (3) continuous improvement; and (4) ownership (Lapsley and Pong, 2000).

VfM audit has also been recognised as a global phenomenon. Glynn (1985) has detailed the international trend in VfM auditing and its adoption by a wide range of nations. He states that the General Accounting Office (GAO) in the federal institutions of the USA started in the early 1970s to formulate principles and accounting standards and performing audits which have expanded to include VfM audit. Meanwhile, Sweden was the first European country formally to adopt VfM, through its National Audit Bureau in 1970.

In the continent of Europe in 1977 the European Court of Auditors (ECA) was established and charged with auditing all revenues collection and expenditures allocation. ECA has access to the documents of all relevant governmental departments and organisations.

These documentations are expected to be scrutinised and evaluated according to the legal propriety and the principles of ECA audit framework. The court undertakes its duties in liaison with the member states' own supreme audit institutions. ECA has employed more lawyers and economists than auditors in order to reflect the differences between member state definitions of audit work and to ensure effective VfM audit (Wilmot, 1984: 212).

Within the British Commonwealth, Canada was the first to adopt VfM auditing in its public sector organisations in 1977 followed by New Zealand and Australia, where it was introduced in 1975 and 1979 respectively (Glynn, 1985). In promoting audit practice in Canada, in 1985, the Auditor General in Quebec was authorised to carry out VfM audits in provincial departments and government agencies (Morin, 2003).

By the 1990s, VfM auditing was fully established in most advanced economies, with its own procedures and principles. Johnsen and Vakkuri (2001: 585) note that this is particularly apparent in Australia, Canada, Finland, France, Norway, New Zealand, the Netherlands, Sweden, the UK and the USA. It is, however, worth noting that within the VfM audit concept there are different descriptions and forms of audit. But the audit practice main emphasise still to examine the economy, efficiency and effectiveness in the delivery of public services in both financial and non-financial terms (Arnaboldi and Lapsley, 2008). For example, VfM could be regarded as a form of 'performance auditing' (Pollitt et al, 1999), a notion which most frequently applied to European countries (Pollitt, 2003), or it could be more readily understood as form of 'comprehensive auditing', as defined in North America (Everton, 2003), or it could be essentially viewed as providing a best value audit, as been inferred in the UK (Arnaboldi and Lapsley, 2008).

It is apparent from the historical review of VfM audit development in the UK and other advanced economies that governments have been more determined to keep pressure on public sector organisations by overseeing the work carried out by their managers in order to achieve the maximum outcome from the use of public resources, while reducing public expenditures to the lowest possible level. Therefore, governments have launched a variety of initiatives. These initiatives have led to management or organisational reform in public sector organisations. Such reform comprises the way that these organisations are actually managed as well as the ways in which they appear to be managed (on this issue see for instance: Stewart and Walsh, 1992).

The following section examines the important characteristics of reform occurring within the public sector organisations. It also demonstrates how this reform has intensified the focus on VfM audit in the UK public sector.

3- Organisational reform, accountability and role of public sector auditors.

The purpose of this section is to generate a historical context for organisational reform and to describe how this reform has shaped the process of accountability and the role of public sector auditors. The reform-focused studies are discussed here to highlight areas of improvements within the audit process and what researchers consider the most important aspects of the audit practice following the organisational reform.

Since the late 1970s the UK government has recognised that a large share of gross domestic product was represented by the public sector organisations without sufficient accountability and efficiency in the delivery of public services (Cocherane, 1993). The governance of public sector organisations was based on hierarchical and bureaucratic mechanisms of public administration, underpinned by an ethic of public service. A key element of this ethic had been the understanding that the prominent division of public sector organisations work is dedicated to the social good, provided for collective public values rather than produced for private gain (Ezzamel and Willmott, 1993). Therefore, the government carried out a wide range of attempts in order to restructure public sector organisations. This movement constituted a reaction against perceptions of public sector immobility, expanded bureaucracy and cost, and created perceptions of un-governability, which had been common in the late 1970s. As such the government constantly focused on undertaking institutional reform within those public sector institutions involving education, local government, the civil service and the NHS (Ashburner et al, 1996). Issues related to the level of expenditure, forms of expenditure and notions of accountability have become the focus of a political debate in the UK government (See: Cocherane, 1993; Demirag and Khadaroo, 2008).

All parts of public sector organisations in the UK have been subject to investigations or legislations, and this in turn has led to substantial management or organisational change (Stewart and Walsh, 1992). The drive to reform intensified in the 1980s after the adoption of New Public Management (NPM). It has resulted in the emergence of a wide range of public and private organisations which spend public money. These organisations include executive agencies, funding bodies, non-departmental public bodies, voluntary and independent organisations, and contractors from the private sector (Bowerman et al, 2003). This notion is based on the widely-held belief that private organisations perform better than their public counterparts and that reform becomes the only way to improve the performance of public sector organisations, since the latter have very often been perceived as being mismanaged and squandering assets and resources (Bozec et al, 2002). Thus, the reform has redefined the patterns of managers' working lives in the public sector and has changed career structures significantly (Butterfield, 2001). Several scholars have commented that public organisations have experienced an unparalleled growth in managerialism under the reform (Pollitt, 1993; Selim and Woodward, 1992) and that the skills and competencies and behaviors required of the public sector managers have changed considerably as a consequence (Talbot, 1994).

Hood (1991) summarised the common themes and areas that emerged from the organisational reform as follows: (1) the introduction of professional management or managerial accountability based on clear assignment of responsibility for action; (2) the emphasis on explicit standards of performance measurement through clear identification of goals and objectives; (3) the provision of more focus on output rather than on procedures for performance measurement; (4) the disaggregation of organisational departments into agencies; (5) the use of quasi-market and contracting out of public resources management to foster competition; (6) the introduction of market-style structures of management practice; and (7) the emphasis on greater discipline and parsimony in the use of resources in order to obtain cost-cutting.

However, the reform has been criticised on its implementation and practical impact. Butterfield et al (2004) examine the adoption of NPM reform within the police service in the UK and highlight four main weaknesses related to the reform. First, they argue that the reform causes the rank and file constabulary more pressure and conflict since it still requires them carry out their operational policing roles, while increasingly demanding that they are involved in management activities. Second, the emphasis on improving accountability by focusing more on output rather than outcome encourages peers and constables to manipulate the system to show performance. In this concern it must be remembered that a strong informal network of peers and constables exists, and this has determined which tasks have been completed, while the sergeants have no direct control over what has or has not been done. Third, measuring individual performance (one of the central features of NPM) on the grounds of performance indicators, which are usually determined by an individual from a strategic level resulted in weakening accountability at the operational level since this leaves a gap between what has been measured and what has been done in reality. Finally, minimising the level of bureaucracy in public management, a goal implicitly at the heart of NPM, has not been achieved.

Butterfield et al (2004) study shows that the reform led to more detailed scrutiny and paperwork, formal recentralisation of control and an attempt to constrain operational autonomy. They added that the political control of resources meant that centralist performance indicators were used to control the activities of lower ranking police. The consequence of this was that the sergeants and their constables do not have the sufficient level of flexibility to show leadership and be customer-oriented, which are some of the main values of the reform.

Another criticism of the reform, put forward by Stewart and Walsh (1992), proposes that change in managerial systems is the way for the public sector organisations to retain their legitimacy. They argue that the adoption of private sector models and styles has been seen as representing good management, but such a practice has disregarded the variety and complexity of private sector management and often over-simplified private sector models without having considerations to the distinctive purposes, conditions and tasks of public sector organisations. This has meant that, in some cases, the practical impact has been small. They add that the change is not adopted to solve particular problems but to express an ideological commitment. This ideology can be seen, for example, through the changes implemented in the NHS in which a move has been made from a system based upon representative principles and planning to one which has adopted market styles and based on private sector models. Stewart and Walsh emphasise on the need to allow considerable scope for interpretations and modifications through the process of introducing and implementing the changes.

In an earlier study by Lawton and Rose (1991) arguments were made to include more factors when adopting the private sector models in the public sector. They highlight a range of elements which indicate the uniqueness of the public sector. First, objectives in the public sector are not clearly defined as these might involve serving the society, maintaining law and order, improving fairness, health, and living standards of the population. Second, plans are mostly not strategic because of the short-term considerations of the politicians. Third, public sector organisations are subject to accountability pressure from different parties such as politicians, taxpayers and voters who have an interest in public sector performance. Fourth, the functions of various organisations are limited by statute in the public sector. Fifth, most of the public sector is funded by the tax payers' money and not by charging for its services. Finally, services such as defence, law and order and street lighting should be delivered by the state and the provision of such 'public goods' cannot be left to the vagaries of the market.

This indicates that, as Lawton and Rose (1991) posit, public sector organisations are not exposed to market competition and therefore have no incentives to operate efficiently by reducing cost. Such a view is supported by Bozec et al (2002: 385), who observe that the objectives imposed on public organisations are not equivalent to those adhered to in private organisations. They argue that these objectives are multiple and blurred since they encompass political and social dimensions.

However, McCrae and Vada (1997) point to the similarities between public and private sector organisations in the context of audit reports. They argue that in the public sector perspective, an auditor's report with regard to the terms of a true and fair view bears some resemblance to that expressed by auditors in the private sector. For example, auditors in both sectors need to ensure that an organisation's management discloses to its users or clients information which accurately represents the underlying reality of the organisation.

In general terms, the trend of importing private sector models to the public sector has to be viewed with caution. Commercial success in the private sector could be measured by counting the profitability and market share and also the standard of customer service. However, this situation within the public sector is more complicated and in many circumstances distinctly different (Cabinet Office, 1988, Para. 1.5, p.2.).

To summarise, the literature in this section presents the historical development of the VfM audit, which intensifies after the implementation of organisational reform. It is apparent from the literature that the UK government, since the implementation of such organisational reform, has commercialised public organisations and the delivery of public services in order to introduce the practices and techniques used by private sector managers into the public sector as well as to benefit from their professional experience. The government has also been determined to improve efficiency and effectiveness in the delivery of public services. However, the reform has resulted in fundamental changes in accountability mechanisms and in public sector auditors' roles. The following section will examine these changes.

4- The impact of the reform on accountability.

This section presents a discussion of the impact of organisational reform on the accountability process. As mentioned earlier, the structure and patterns of the UK public service delivery have changed substantially over approximately the last three decades. For example, Private Finance Initiative has been introduced to improve the quality and cost effectiveness of public services (HM Treasury, 1995, par. 1.2.). This has imposed a considerable change on the public sector audit and accountability. Public sector organisations have been fragmented with new forms of networks and sets of relations. Therefore, rather than the concepts of accountability and auditing fulfilling what is required of them through the application of rules drawn from classic financial accounting and managerial economics theorem, these concepts are themselves becoming contested issues. As such, managing these matters becomes more complex than implementing the traditional accountability and auditing rules (Cochrane, 1993).

Several studies have discussed the change in the nature of accountability in the UK public sector. Brown (2003: 32) sees accountability as "the relationship between principle and agent. The agent is responsible for fulfilling a task or duty on behalf of the principle and consequently is accountable to the principle". In an earlier study, Glynn and Murphy (1996: 127) define the term accountability "as the process via which a person or group of people can be held to account for their conduct". This definition, according to Glynn and Murphy, involves the classical accountability of stewards, the legal accountability of contracting parties, the professional accountability via which professionals such as doctors, nurses, clinicians etc. can be held to account for their conduct, and political accountability, which is the process of holding the politicians to account on behalf of the government and the public.

Accountability could be linked to the concept of responsibility. Day and Klein (1987: 5) note that "one cannot be accountable to anyone unless one also has responsibility for doing something". They also state that the tools and techniques implemented by administrators in determining values will result in specific decisions. They conclude that accountability is achieved through responsibility enforcement.

In a study by Simon et al (1950) responsibility is viewed in three different ways. First, responsibility is related to the issue of legal authority, such as having duty for a job. Second, responsibility has a moral obligation. The parents, for example, have moral obligations towards their children, which should be fulfilled. Finally, responsibility is directly linked to responsiveness to values, where a public servant is charged with carrying out tasks and his performance is correlated to the values, which are held by those charging the servant with carrying out the function.

Day and Klein (1987) commenting on the third mode of responsibility note that accountability involves approaches, course of actions and forces that are used to find out which values having an impact on decisions made by administrators or managers. They conclude that "accountability is the enforcement of responsibility" (Day and Klein, 1987: 6).

Accountability is not exclusive to the public sector as Lawton and Rose (1991) argue. They state that private sector organisations attach considerable importance to accountability as a method of examining the ways in which people discharge their responsibility and the financial performance of the organisation. However, the public sector is considered to have more accountability than the private sector because of five main reasons. First, public organisations are responsible for the handling of policies and tax payers' money, as approved through democratic processes. Second, responsibilities are entrusted to public servants and therefore high standards of conduct are expected of them. This includes the way in which they spend public money, the way in which policy is determined and put into practice, and even the way they conduct their public lives. Third, the objectives of public sector organisations might have multiple goals, which could conflict with each other. In contrast, private sector goals tend to be more precise. Fourth, it is difficult to generalise about the process of accountability in the public sector because of the diversity of public sector organisations and the variations in the activities they undertake. Finally, public sector organisations are frequently large with long chains of leadership, which could cause problems in controlling the activities of those who are charged with putting policies into practice.

Sinclair (1995) reviews the literature on accountability in public sector organisations and proposes a broad framework comprising five types of accountability: political, managerial, public, professional and personal. Stone (1995) analyses administrative accountability (a type of public sector accountability), which is broadly similar to the managerial type of accountability as proposed by Sinclair (1995). Stone breaks down administrative accountability into five categories: parliamentary controlled, managerially based, judicial and quasi-judicial reviewed, constituency related and accountability linked to market relations.

Broadbent and Laughlin (2003) distinguish between two types of accountability within the UK public sector, managerial accountability and political or public accountability. The first form of accountability applies to managers and consists of holding them accountable for their responsibility over public resource. Political or public accountability, which applies to elected representatives and involves holding them accountable to their electors for the authority granted to them. Broadbent and Laughlin argue that an increase in the pressure on governments makes the level of political / public accountability change in a manner that mirrors managerial accountability. To test these views the authors examined how the UK government has made itself accountable for the introduction of private sector money under the scheme of Private Financial Initiatives (PFI) in order to develop the services offered in the public sector. They argue that pressure on government to justify PFI might qualitatively alter the nature of political or public accountability in a manner that mirrors managerial accountability. They add that the government has failed to satisfy some members of the skeptical public about the justification of PFI through the adoption of macro fiscal control mechanisms. This has led the government to focus more on micro VfM control mechanisms, which strengthen managerial accountability.

Lawton and Rose (1991) have identified three dimensions of accountability within the public sector. The first form of accountability is directly related to law implementation and applies when the actions of public sector organisations are subject to challenge in a court because of criticisms or complaints. The second type of accountability relates to consumers or clients who feel aggrieved at decisions taken by the public administration and who have the right to appeal against these decisions. The last form of accountability applies to professionals who are experts with relevant qualifications in a specific area and who should be held accountable for their professional conduct.

The impact of reform on accountability is also discussed in another study by Glynn and Murphy (1996). They question whether in fact the reform has been successful in improving the UK public sector accountability. They point out into principal changes in the accountability process under the organisational reform. Limited budgets are dedicated for public sector organisations to achieve their objectives. This means that public funds should be spent for appropriate purposes, while expenditures remain within budget limit. Relate accountability to the performance of services that are influenced by managers at operational level as these individuals are directly involved in resources management and in the delivery of public services. Professionals are held more accountable for the use of public resources and the outcomes achieved as a result of such use.

However, Glynn and Murphy express concern that the division between management and professional accountability becomes increasingly indistinct under the new reform, as both managers and professionals are accountable for issues such as economy, efficiency and effectiveness of managing public resources. They conclude that to some extent the reform has achieved greater accountability, but that it is different in nature from the traditional notion of accountability in the UK public sector as it focuses much more on inspection of tangible inputs and outputs, rather than on the process in which public services are delivered.

The nature of accountability in the UK public sector, as Quirk (1997) argues, has changed under organisational reform. This change is also discussed from the viewpoint of the management in local government. The research investigation was carried out to examine the impact of changing the technical basis of service provision and delivery as well as influencing the institutional psyche of organisations with regard to the way in which public institutions should be managed in the future. Quirk argues that public institutions themselves have changed as a result of the development of the quasi-market and the desegregation of the activities of these institutions. This has considerable impact on accountability, as the boundaries of these organisations become blurred. Goods or services, which used to be provided directly by public organisations, are now provided through a new network of relations with different providers and agencies. He concludes that the development of quasi-market for the public sector has revised the roles and aims of public managers and their institutions as management become concerned about shaping perceptions as well as marshalling public resources. As such, public managers are now keen for their institutions to cultivate an outward looking stance, focusing more on the outcomes than on the process of service delivery.

Based on the above studies, there are two common themes in the development of accountability after the organisational reform: (1) the emphasis on VfM in the delivery of public sector services; and (2) professionals and operational managers are becoming more accountable for the use of public resources in order to achieve the most possible outcomes.

5- The impact of the reform on the role of auditors

To ensure accountability in the public sector inspections are required by auditors who have the responsibility of checking that public resources are properly managed. Therefore, it is essential to analyse the role of auditors in overseeing public sector resources management. Parsons (1950) defines role as an act in which a person who is occupant of a position does in relations with others. Katz and Kahn (1978) define the concept of role as the summation of the requirements with which an organisation does confront the individual member. Van Sel et al (1981) adds that within an organisational context, the term role could be defined as the aggregation of expectations applied to the incumbent of a particular position by the incumbent and by role senders within and beyond an organisation's boundaries. Based on these views role (including auditors' role) signifies the way in which the position occupants actually behave and the expectations governing the relationship between individuals occupying particular positions.

The external auditor's role in the UK public sector has expanded under organisational reform. The main consequence of this expansion, according to Pollitt (2003), is the development of performance audit where auditors are required to take on multiple roles, which were not perfectly reconcilable with one another. Auditors in public sector have to report on the performance of management in public organisations with particular emphasis on the assessment of economy, efficiency of operations and the effectiveness with which results are achieved. It becomes more significant to assess performance or output in the public sector as its performance cannot be judged by a single indicator or measure (Chowdhury et al., 2005).

Percy (2001) assessed the role of public sector auditors. In his study he argues that auditors should be both independent and competent in carrying out their work. This is in order to maintain confidence in public spending and to add value by constructively reporting to achieve improvement in the delivery of public services. Therefore, it is imperative that the expansion of public sector auditors' roles involves a social role as well as a professional role. To satisfy both roles Chowdhury et al (2005) note that auditors need to be capable and competent at carrying out performance audit.

This expansion of the auditor's role in the UK public sector has been approved by the National Audit Act of 1983, which has granted the Comptroller and Auditor General remit to carry out "examinations into the economy, efficiency and effectiveness with which departments or other defined bodies have used their resources in discharging their functions, with the proviso that he/she must not question the merit of policy objectives" (House of Commons Library Research Division, 1992:34). Thus, the traditional focus of public sector audit on regularity has been overtaken by giving auditors responsibilities to investigate that proper arrangements are in place to secure VfM in the use of public resources and to enhance the financial capability of public service organisations, particularly, cost-saving measures arising from changes in working patterns and practices (Lapsley and Pong, 2000).

Flesher and Zarzeski (2002) state that the scope of public sector audit should go a step further than the standards and procedures that are applicable to audits of financial statements and involve other elements such as: (1) commenting on propriety, fairness and compliance of financial operations with laws and regulations; (2) determining whether the public organisations are managing their resources economically and efficiently; and (3) determining whether the desired results have been achieved, established objectives have been met and whether public organisations have considered the minimum cost alternatives, which might yield desired results.

Furthermore, the volume of routine audit work has also been mushroomed after the reform's implementation, which in turn has led to an increase in the number of separate organisation units and the establishment of different agencies that provide public sector services. Each of these units and agencies is required by law to submit separate accounts, which have to be audited individually each financial year (White and Hollingsworth, 1999).

Weir and Hall (1994) draw attention to the huge inconsistencies in audit coverage of the UK publicly funded bodies as a result of the organisational reform. The researchers examine the growth of extra-government organisations and question the existence of appropriate mechanisms of democratic audit and accountability for every organisation. They conclude that these organisations are heterogeneous groups and that the audit and accountability mechanisms vary from one body to another. In their study they argue that these organisations are not fully controlled by the formal representative institutions, such as the parliament, which has a limited capacity to deal with the organisations. This has raised a lack of performance audit and accountability because of the practical difficulties in making an effective arrangement to secure appropriate means of accountability.

The core difference between the nature of public sector audit before and after the reform's implementation is that the auditor's role has changed from an attesting function of the reliability of the statement of accounts to an evaluation of managerial performance through application of the VfM audit (Glynn and Murphy, 1996). This change has led to a dramatic transformation in the UK public sector accountability arrangements. Executives and operational managers are becoming more accountable, especially after the introduction of private sector concepts and practices (the quasi-market model) of the delivery of public services by the government. Accordingly, strategic and operational issues have been separated and the most auditable parts have been left at the operational (consumer - provider) level than at the strategic level.

To recapitulate, the review of the literature in this section shows that public sector auditors have entered into a new era as a result of the implementation of organisational reform in the UK public sector. This phase is shaped by the development of VfM audit in which public sector auditors are required to assess managers' and professionals' performance and to report on important issues, such as economy, efficiency and effectiveness of the resources' deployment in pursuing the public sector programmed objectives.

6- VfM audit and its implementation in the public sector organisations

As mentioned in the previous sections, the VfM audit has emerged as an important tool in the process of redesigning and improving the practice of public organisations. The VfM audit is becoming more than a neutral monitoring technique, being intrinsically linked with programmes to improve the economy, efficiency and effectiveness of the use of public resources by the public organisations (Power, 1997). Under the new rules the auditors who are appointed to report on public organisations should be both independent and competent and carry out their work not only to maintain confidence in public sector spending but also to add value by constructively reporting to achieve improvement in the delivery of public services (Percy, 2001). On the issue of competency Chawdhury et al (2005) state that auditors should be in a position to carry out performance audit (performance measurement) effectively.

However, administrators in the auditing bodies might experience a dual problem when they attempt to improve performance in the audited bodies. The first constraint is to determine how to obtain the confidence of the managers of audited bodies so that they accept the fact that the auditors are participating actively in the management process. The second obstacle is to reconcile the need to put in place and maintain a co-operative relationship with managers without compromising the reality and image of an independent audit (Barzelay, 1996:51). Therefore, in order to examine the effective performance of the VfM audit it is vital to assess how both parties (auditors and their clients) perceive the VfM audit and its usefulness to improve performance in the audited bodies.

So far, the present inclination of research on VfM audit performance is focused on the views of the auditors and the audit bodies over the auditing process (see for instance: Arnaboldi and Labsley, 2008; and Morin, 2008). Hence, one of the aims of this research article is to review the existing body of literature on the perceptions of VfM auditors and their clients in regards to VfM audit performance. It is assumed that audit enhances value creation in public sector organisations by constructively contributing into better quality delivery of public services.

Concerns about how the VfM audit has been perceived by the external auditors and their clients in the UK public sector can be viewed through the evaluation of its factors including economy, efficiency and effectiveness as well as considering the practical difficulties surrounding the assessment of these factors. The absence of any consensus on what the term VfM audit constitutes has contributed to such difficulties. Bowerman (1996: 585) identifies six different but not exhaustive approaches to VfM audit: (1) review of management systems, arrangement and procedures; (2) the assessment of performance procedure audit; (3) an examination of policy audit; (4) inspection of management representations of performance; (5) comparative performance audit; and (6) review of quality audit.

In his thesis entitled The Audit Society, Power (1997) reviews the irrepressible spread of audit into areas far beyond the traditional financial focus in the UK public bodies. He presents audit as a central player in the reinvention of public governmental bodies. In his study Power claims that performance auditing bodies have increased influence over all aspects of life. As a result, public organisations are increasingly becoming more auditable and are producing measures of activity which enable them subsequently to be held to account through audit or inspection. However, Power argues that these claims need more empirical support. He conceptualises that the pervasive presence of audit on society can lead to: (i) legitimation; (ii) colonisation and culture change, and (iii) displacement of core organisational activities.

Bowerman et al (2000) draw on Power's (1997) thesis to examine the growth and scope of performance audit activity in the National Health Service, the Police Service and schools in Scotland. Their study is based on secondary data and interviews with auditors, inspectors and auditees across the three public service organisations. Although the researchers identify cases of performance measures which were neither subject to independent verification nor had little direct involvement with any processes of public accountability, they argue that such lack of verification or utilisation does not deny Power's claim that public sector organisations are in a more prepared state of auditability. However, Bowerman et al disagree with Power's argument concerning the impact of performance audit, in terms of improving accountability and performance within the audited bodies. Instead they argue that performance audit can be seen as just one element within a wide range of performance measurement and monitoring vehicles, which are being used by public sector managers and officials to improve accountability and performance.

In addition, Bowerman et al's (2000) analysis in relation to performance audit raises a range of problematic issues, which might hinder its impact on the audited bodies. Firstly, it highlights the need for more attention to be given to the way in which public sector performance is measured and the way in which auditors give credit for improved performance. Secondly, their analysis reveals a proliferation of performance audit bodies and a limited degree of audit integration. This might cause an audit overload on the audited bodies. Thirdly, they argue that the lack of auditors influence over the public sector is reinforced by the way auditors appear reluctant to report (or are prevented from reporting) on matters which the vast majority would regard as matters of fundamental public interest. For example, restrictions exist on public sector auditors' right to criticise governmental bodies' policy that raises questions regarding the scope, powers and organisation of public sector audit activity. Fourth, they highlight the need for an external body to produce and validate the data available for the auditors to conduct a performance audit rather than relying on the audited bodies producing the data. They add that auditors' observations and judgments on both information credibility and levels of performance attained may be more useful than the current volumes of raw data which place large burdens on the audited bodies. Finally, they highlight the potential for conflict since public sector auditors are required to help public organisations to improve and assess their performance.

In contrast to Bowerman et al (2000) views and findings, Arnaboldi and Lapsley (2008) provide empirical evidence which supports Power's thesis on the impact of public sector performance auditing on the public audited bodies. The authors draw on Power results to assess the perceptions of management in local government in Scotland, and how Best Value Audit (an expansion of the term VfM audit) has impacted upon public sector organisations. Arnaboldi and Lapsley consider whether management sees audit perceptions as a critical reference point in guiding its actions. Their analyses are based on data gathered from interviews with auditors and managers who have a designated responsibility of offering Best Value services. Another set of interviews are also conducted with senior professionals who have a significant task for service delivery from local government bodies. They reveal strong evidence to support Power views, particularly on the issue of audit practices deployment by central government agencies in order to shape the management of local government bodies. This directly relates to the three possible outcomes of such audit: (1) colonisation of ideas (or culture change); (2) the role of legitimating; and (3) the displacement of core activities. Arnaboldi and Lapsley find that auditors had defined 'good management' and investigated whether managers and professionals adhered to their guidance. However, managers and professionals appeared to address the process of Best Value Audit as a box-tick exercise, rather than acting upon its guidance.

Lapsley and Pong (2000) examine the practice of VfM audit in Scotland. They highlight the importance of VfM audit as a tool for modernisation but with a view that VfM audit is a problematic exercise. VfM audit is addressed from the perspective of an expert group of VfM auditors employed by the Accounts Commission, the National Audit Office and auditors from private accounting firms who are also experts in VfM audit. They question the perceptions of the professional group in relation to VfM audits, the usefulness of this type of audit to improve performance, VfM audit in practice and the future of VfM audit. Data was collected based on three stages process. The first phase involves an initial discussion with twelve auditors. In the second stage a set of questions was sent to each auditor. A clarification was sought with the respondents following the receipt of their responses in the final stage. They conclude that VfM has become part of the public sector auditors' ethos and is now taken for granted. In addition, they state that VfM audits have been perceived as a mechanism which might be used to force the management of public service organisations to re-appraise the conduct of their activities.

The impact of subjectivity on the performance of the VfM audit is supported by Lapsley and Pong (2000) who argue that VfM as a concept is inherently ambiguous. This indistinctness might function to justify a variety of interpretations of VfM: (i) difficulties of generating, in operational terms, what constitutes 'efficiency' and 'effectiveness'; (ii) the particular difficulties of identifying the potential for dysfunctional application and use; and (iii) the consequences of such varying interpretation of efficiency and effectiveness measures.

Pendlebury and Shereim (1990) carried out a quantitative study in the UK local government to examine the attitude of public sector auditors towards effectiveness auditing. The study involved auditors from the NAO, AC and private sector accounting firms. They discussed four essential points over the audit practice: (1) whether the audit aimed at assessing effectiveness was achievable; (2) whether existing external auditors were the right individuals to undertake effectiveness audit; (3) whether this audit should be carried out by a team of auditors and trained experts who are drawn from other disciplines; and (4) whether the audit of effectiveness might involve the auditors too closely with policy matters. The study reveals that although auditors do acknowledge the need for support from specialists who have skills other than auditing they appear to be uninhibited by the need for personal judgment based on subjectivity to assess effectiveness in public services. Auditors also insist that effectiveness audit is achievable and that they are the appropriate individuals to be involved in this task.

In a similar study, Roberts and Pollitt (1994) examine the perceptions of audited organisations and the parliamentary activities after the publication of the NAO report on VfM audit undertaken between 1989 and 1991 to evaluate the effectiveness of a programme carried out by the Welsh Office and its agents, the Welsh Development Agency (WDA) and the Development Board for Rural Wales (DBRW), with the aim to create and safeguard jobs in Wales. The results obtained by Roberts and Pollitt reveal that the NAO perceived the impact of their report as a positive one since it might stimulate the WDA to evaluate its major programmes over the next three years and to be more focused on job quality and innovation. However, the audited bodies argued that, although the NAO study provides a stimulus to them to further develop their own evaluation and keeps VfM firmly in their minds, the cost-effectiveness technique which they used was too narrow as it focused on measuring the net jobs created (micro-economic approach), while it cannot capture the wider issues (macro-economic approach), such as quality of jobs created and the environmental or cultural programmes, which create the climate for jobs.

Pollitt et al (1999) present a comparative study of five European countries (Finland, France, Netherlands, Sweden and the UK) in terms of the impact of VfM audit on the audited bodies. Their measurement of the effect caused by VfM audit is based on the amount of the recommendations applied by the audited bodies. In their analyses the researchers identify a gap between the perceptions of the auditors and the audited bodies' managers. Auditors interviewed perceived that their recommendations have influenced the audited bodies, discouraged them from adopting risky management practices and positively impacted the performance of the audited bodies. However, audited bodies were not convinced of such impact since this type of audit, from their point of view, has resulted in work overload. Furthermore, some of the auditees interviewed argued that the VfM audit recommendations were occasionally not relevant to the new management practices required by politicians. Finally, the scholars highlight the potentially unthinking introduction of new practices by the audited bodies in anticipation of the auditors' visit.

In the same vein, Johnsen et al (2001) provide empirical evidence using Finland and Norway as a case study. Their views contradict the findings of Pollitt et al (1999). Johnsen et al identify a considerable level of consistency between auditors' and audited bodies' perceptions of the efficiency of the VfM audit in improving accountability and performance in local government bodies in both countries. Despite some problems related to the quality of the performance audit reports due to the involvement of inexperienced VfM auditors, the informants perceived, in general terms, performance audit to function as a useful and rational public management tool. Compared to financial statement auditing, the authors found that VfM audit has a more visible connection to both performance improvement and day-to-day management processes. However, the researchers highlight the influence of environmental factors, in particular political issues, on the performance of VfM audit. Their analysis reveals that if the ruling coalition responsible for providing and financing performance audits in a local government body persistently experiences that the information in the VfM audit reports might be used against it as political ammunition, it may increase the pressure on the auditors or even reduce the demand over time from the ruling coalition for performance audits.

Overall, literature in this section discusses the impact of VfM audit on the audited bodies. The discussion is from the perspective of those actors who are directly involved in the VfM audit process, (i.e. the auditors and the auditees). The literature shows that although the term VfM has embedded in a day-to-day organisational life, its impact as a management tool for improvement should not be taken for granted.

7- Conclusions

The literature review reveals that governments adopted a major organisational and managerial reform with the aim to restructure public sector organisations which would improve accountability and value generated from the use of public resources. The reform is characterised by the adoption of private sector management concepts and styles to the public sector. As such, public organisations are being fragmented due to the advent of new forms of network and sets of relations. This makes accountability and auditing fulfillment more difficult as the traditional accountability and auditing roles are no longer workable.

According to various investigations covered in this study there are two main forms of accountability: (1) managerial accountability, which is applied to managers and professionals by holding them accountable for the use of public resources and (2) political accountability, which is applied to the elected representatives by holding them accountable to their electors for the authority granted to them. As the public has no significant level of control over the government with regard to macro issues (strategic policy) the government usually focuses more on micro VfM control mechanisms, which strengthen managerial accountability. As a result, professional and operational managers are becoming more responsible for the use of public resources.

Scholars also pointed to considerable expansion of public sector audit following the reform. The main consequence of this expansion is the development of the VfM audit. As such, the external auditors' role has expanded from a straightforward examination of the fairness of an organisation's financial statements into measuring management performance and reporting on issues such as economy, efficiency and effectiveness of the acquisition and allocation of resources for the purposes intended. In this context, auditors are becoming required to participate in planning various reviews, carrying out performance evaluation (performance audit), and preparing financial guidelines. Therefore, the scope of public sector audit has extended to provide considerable services in their strategic and operational planning. This, however, might cause concern about involving public sector auditors in consultancy services by seeking advice from them about preparing financial guidelines and accounting system, then requiring them to report on the implementation of these guidelines and systems which might conflict their professional standards.

With regard to the expectations from VfM audit implementation, researchers point to clear differences in perceptions between auditors and clients (professionals and operational managers), particularly in respect of the effectiveness evaluation of the public sector organisations. Some of the external public sector auditors perceived their VfM reports as valuable and positive because they stimulate the public management to re-appraise their conduct. Others are not convinced of their appropriateness to carry out an effectiveness audit since it is based on a high level of subjectivity. They argue that managers and specialists in public departments might be in a better position to do this kind of evaluation. Audited organisations perceive auditors' recommendations as un-realistic and difficult to be applied. This analysis indicates persistent problems linked to professionals who have expressed caution over the use of the VfM audit.

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