External Auditors and Clients: An Investigation of perceptions of Value for Money (VfM) Audit Practices in the UK Public Sector

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Declaration

All the names of auditing audited organisations and auditor and client participants involved in this Thesis are anonymous and fictitious. All the data used in this study are confidential and non-attributable to any contributor. This is in accordance with the Westminster University’s Code of Practice Governing the Ethical Conduct of Investigators, Research, Demonstrations and Experiments and the Code of Research Good Practice 2009 / 2010.
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Abstract

The aim of this Thesis is to provide empirical explanations for the perceptions of external auditors and clients (professionals and Operational Managers in the UK Public Sector organisations), in regard to the Value for Money (VfM) audit’s ability to improve performance in the UK Public Sector organisations. The main source of the data was face-to-face semi-structured interviews with auditors from the National Audit Office, The Audit Commission and other accounting firms from the UK Private Sector. Senior professionals and Operational Managers from the National Health Service, Local Government Authorities, the Police Service and Housing Associations were also interviewed.

The evidence is organised with the following aims; (1) to investigate the audit expectations and perception gaps between the external VfM auditors and their clients, i.e. professionals and Operational Managers in the UK Public Sector organisations, while identifying the nature of potential role conflicts in the VfM audit environment along with the causes and consequences of such potential conflicts; (2) to examine, both from the auditor and client perspectives, the impact of the VfM audit on the audited bodies’ performance and to determine whether the VfM audit has effected any changes in the way these organisations manage public resources, and (3), to examine, from the external VfM auditors’ and clients’ perspectives, the impact of the VfM audit on the UK Public Sector audited bodies, while investigating the ways in which the interplay of personal, interpersonal and external factors can enhance or hinder its effective performance.

The results show that, among other tools, the VfM audit has been perceived as an important means with which to improve institutional performances in the Public Sector,
but the VfM audit has not yet been internalised in the audited bodies as previously assumed. The results indicate the existence of clear audit expectationss and perception gaps within the VfM audit environment. Clients expect the external VfM auditors, firstly, to identify areas where their performance needs to be improved and then to suggest solutions in order to remedy the problems and improve performance in the audited bodies. According to official documentary evidence, these expectationss have been regarded as unreasonable, with the assumption being that the auditors should not be involved in working with the audited bodies to find out solutions to remedy problems, as this might impair their independence.

The findings of this study also show that, while the majority of the auditors interviewed took an extremely positive view of their own achievements in terms of improving public institutions’ performances and delivering VfM services, the majority of the clients, and some of the auditors interviewed, were not convinced of the external auditors’ competence to carry out a VfM audit effectively, and to provide their clients with value added recommendations. The major concern seems to be in regard to the auditors’ relevant experience and knowledge of the audited body’s activities, the materiality of their findings and the truth and fairness of their reports.

In addition, the results show that audit expectationss and perception gaps between the external VfM auditors and their clients give rise to significant role conflicts. Three types of role conflicts have been identified; (a) conflict between the external VfM auditors’ roles and their own professional values and standards (person-role conflict); (b) conflict between the external VfM auditors’ actual capabilities and their role requirements (role
overload), and (c) conflict between the external VfM auditors and their clients (inter-
sender conflict).

Moreover, this study has revealed that social factors at the personal (the VfM auditors’
competence based on their relevant skills, experience and knowledge of the Public
bodies’ activities), interpersonal (task interdependence between the external VfM
auditors and the clients) and external levels (the ambiguity of the VfM audit process), all
have negative effects on the influence of the external VfM auditors over the audited
bodies, hindering the effective performance of the VfM audit.

Finally, the findings reported in this study suggest that there is a necessity for more
studies to examine both the VfM audit’s effective performance and impact on the
audited bodies, especially in view of the constant change which characterises both Public
Sector organisations, as well as the remits of the VfM audit as a tool to improve
performance.

Key words: organisational reform, VfM audit, external auditors, clients, expectationss,
perceptions, social factors.
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Abbreviations and Definition of Terms

- AC: Audit Commission.
- Auditors: external auditors from the National Audit Office (NAO), Audit Commission (AC), and private accounting firms, which provide the VfM audit in the UK Public Sector.
- Clients: professionals and Operational Managers from the UK Public Sector institutions.
- CAG: Comptroller and Auditor General, the head of the National Audit Office.
- Focal-Person: the occupant of a position, in this study each professional or Operational Manager from Public Sector organisations.
- IFA: International Funding Agencies.
- NAO: National Audit Office.
- PAC: Public Account Committee.
- Role set or role senders: external VfM auditors.
- UK: United Kingdom.
- VfM: Value for Money.
- VfM audit: the assessment of economy, efficiency and effectiveness of the use of public resources.
- 3Es: economy, efficiency and effectiveness.
1. Chapter One: Introduction

1.1. Introduction

The late 1970s heralded dramatic changes in the structure and management of Public Sector organisations in the United Kingdom brought about by the view that these service organisations were inefficiently accountable, wasteful and, thus, not giving value for money (Cochrane, 1993) This neo-conservative ideological view links Public Agency efficiency to managerial ability, authority and accountability through the introduction and adoption of Private Sector management concepts and styles into Public Sector organisations. The strategy included an emphasis on cost control, financial transparency, more autonomy for organisational sub-units, decentralisation of the management authority, the introduction of quasi-market mechanisms to separate purchasing and provide functions via internal contracts, and the enhancement of accountability to customers for the quality of service via the creation of Performance Indicators (Power 1999). It also includes strategic planning, re-engineering, customer service, quality assurance, performance management, risk management, and accrual accounting (Golembiewski & Kuhnert 1994; Hensher 1986).

The changes have radically redefined both the Managers’ working lives and their career structures. Throughout the Public Sector there has been a move away from a producer orientation towards customer sovereignty (Hancox et al. 1988: Harrow and Shaw, 1992). Several authors have commented that managerialism in Public Sector organisations has been subject to an unparalleled growth (Pollitt 1993: Selim and Woodward 1992: 141-
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169) with requirements in regard to the skills, competencies and behaviours expected of Public Sector managers changing considerably as a consequence (Talbot, 1984). A term often used to encompass all of these changes is that of the ‘New Public Management’ (NPM), which became one of the most striking international trends in public administration (Hood 1991).

Coinciding with these changes, two types of accountability have emerged, i.e. managerial and political accountability. The former applies to managers and professionals in public organisations and involves holding them accountable for the use of public resources. The latter applies to Parliamentary representatives and refers to the practice of holding them accountable to their electors for the authority granted to them. Broadbent and Laughlin (2003) argue that, with regard to macro issues (i.e. strategic policy), public control over the government is relatively inconsequential, and thus the government usually focuses more on micro VfM control mechanisms, which strengthen managerial accountability. Consequently, professional and Operational Managers are becoming more accountable for the use of public resources.

The roles of external auditors to the Public Sector have expanded from simply auditing the accounts and reporting on the regularity of the Public audited bodies to the evaluation of the management performance and commenting on issues such as the economy, efficiency and effectiveness of the use of taxpayers’ money (Glynn and Murphy 1996).

As a result of this expansion in professional scope, the audited clients, in particular those non-accounting professionals and managers at the operational level, now hold altered
expectations of the external VfM auditors’ roles. In carrying out their tasks, auditors are
generally expected to face difficulties and major challenges because they have to comment on these
professionals’ and Operational Managers’ work. These difficulties intensify when there
is a gap between the auditors’ and clients’ perceptions of the usefulness of the VfM audit
in improving accountability and performance in the audited bodies, which gives rise to
role conflicts (Glynn, 1983).

Several authors have commented on these problems. Lendeberg (2007) argues that
difficulties might be associated with the VfM audit as a result of the high level of
subjectivity surrounding its practices. Hatherly and Parker (1988) address, from the
audited bodies’ point of view, the difficulties of applying the recommendations
formulated by the auditors with regard to the economy and efficiency, explaining that
some of these recommendations might prevent the achievement of effectiveness, or vice
versa. This Thesis is supported by Vikkelsø (2007) who points out potential difficulties
for auditors assessing the efficiency and effectiveness in the Healthcare Service.
Efficiency strengthens the emphasis on money-saving, while effectiveness focuses on
good quality Healthcare. Pendlebury and Shereim (1990) question the achievability of an
effectiveness audit, and the suitability of existing auditors to undertake this task. Their
study points to a disparity of views between auditors. Robert and Pollitt (1994) analysed
the perceptions of audited organisations after a publication of National Audit Office
(NAO) findings, and highlight the variation of views about the accuracy of these
findings. In addition, Power (1994a) expresses concern about the usefulness of the VfM
audit in improving accountability because of its inherent interpretative ambiguity. This
view is supported by Morin (2001) who examines, with reference to the Canadian
context, the impact of the auditors’ general reports on the state of affairs in the audited
organisations. Morin also highlights the intrinsic ambiguity of the VfM audit, especially concerning its effectiveness as an instrument with which to improve accountability and Public Sector management performance. Morin (2003) proceeds to question the ability of the auditors to keep a balance between their roles as controllers and their roles as catalysts, and expresses concern that these two tasks might conflict with one another.

The studies mentioned above explore the changes of the roles of the external auditors in the UK Public Sector over the last three decades or so. These studies also explore the development of the VfM audit in the UK Public Sector and question both its usefulness in improving accountability and performance in Public Sector organisations, and the competence of the auditors to carry out this type of audit. In addition, these studies suggest that there is a potential audit expectations gap which is likely to give rise to role conflicts between the auditors and their clients in relation to the VfM audit.

Despite this substantial change, the literature is still lacking empirical research on the practice of the VfM audit and its impact on the audited bodies (Powerman et al, 2000). Hence, the expectations and perceptions of the external auditors and their clients remain both in regard to the usefulness of the VfM audit in improving performance in the Public bodies and as to whether there is an audit expectations and perception gap between these groups (Glynn, 1985; Guthrie and Parker, 1999).

The literature on the audit expectations gap is intensive (see section 2.5) and discusses the continuing gap between the auditors and the users of financial statements regarding the role of the auditors and the level of assurance provided by them (Sidani and Olayan, 2007). However, existing studies on the audit expectations gap have notable limitations.
First, they have centred on the Private Sector audit and conspicuously ignored the Public Sector. Second, the existing studies have investigated a gap between the auditors and the users of the financial statements, while generally ignoring the views and experiences of the audited organisations (Power, 2003). Audited organisations are usually directly involved in the auditing processes and can undermine these processes by not co-operating with the professional auditors; it is, therefore, important to take these people’s views into consideration in order to narrow such a gap, if it indeed exists, and to avoid potential role conflicts between the two parties, i.e. the auditors and the audited bodies. Morin (2003) highlighted the importance for the auditors, tasked with auditing the Public Sector, to consider the audited organisations’ views of the VfM audit. He argued that this might help the auditors to adapt their role more appropriately to the characteristics and context of these organisations, rather than imposing a predetermined, less relevant role.

Third, existing studies on the audit expectations gap have mostly utilised a quantitative approach, based on mail questionnaires, to examine how the auditors’ roles and responsibilities have been expected and perceived by the auditors and different users of the financial reports. The broad aim of such studies was to identify whether there was a gap between both parties’ expectations and perceptions. The overwhelming conclusion of existing studies confirmed the existence of an audit expectations gap (Fadzly and Ahmad, 2004; Lin and Chen, 2004). However, the consequence of this showed that this positivistic approach has limited the opportunities for discovering new sources of knowledge. For example, it does not help to explain how the auditors and the clients perceive their roles, why a gap in expectations or perceptions exists and, consequently, how it affects the performance of auditing in terms of its impact on the audited bodies. These questions have rarely been addressed, despite their undeniable pertinence and
importance to the success of the whole auditing process. In addition, by adopting a positivistic approach, previous studies have failed to recognise the impact of the interplay between personal (the VfM auditors’ competence according to their skills, experience and knowledge of the public bodies’ activities), interpersonal (the potential for client-auditor task interdependence) and external factors (the VfM audit’s intrinsic ambiguity) on the auditing process and how these factors can obstruct the external auditors’ statutory power over their clients, and undermine the VfM audit’s effective performance.

Overall, there is a pressing need for an empirical study which can overcome these limitations and examine whether or not an audit expectations and perception gap exists in the UK Public Sector. This is necessary due to: a) the importance of the VfM audit as a worldwide phenomenon which has begun to be viewed, alongside the financial audit, as an indispensable tool by managers, politicians, regulators and consultants to reform Public Sector bodies in terms of their performance (Power, 1994); b) the similarity across Private and Public Sectors of the audit’s broad aim. McCrae and Vada (1997) stated that, in terms of representing a true and fair view, the Report, by the Comptroller and Auditor General CAG auditors, is similar to the one issued by the Private Sector auditors. For example, the auditors in both sectors need to ensure that the management of the audited organisations discloses to the users that information which best represents the users’ essential reality within the audited organisation. Unlike Private Sector auditors, the VfM auditors are required to evaluate the performance of the audited bodies and report on issues such as economy, efficiency, and effectiveness (the VfM audit) (Chowdhury et al., 2005).
Based on the existing literature, to date no study has investigated an audit expectations and perception gap in the UK Public Sector as it occurs between the external VfM auditors and the clients who are directly involved in the process of the VfM audit under the organisational reform (NPM). This study thus extends the literature on the audit expectations gap into the critical and influential area of the Public Sector audit. It aims to overcome the rigidity of positivistic methodology in regard to the notion of an audit expectations gap by introducing a mode of research that goes beyond the technical focus of positivism and includes other aspects, such as insight into the opinions and motivations of the external VfM auditors and clients in the UK Public Sector. The emphasis is on achieving the following objectives:

1- To investigate audit expectations and perception gaps between the external VfM auditors and the clients and to identify a potential role conflict in the VfM audit environment, along with determining the causes and consequences of such variances.

2- To examine, from the perspective both of the external VfM auditors’ and the clients, the impact of the VfM audit on the audited bodies’ performance and to determine whether the VfM audit has made a real change in the way these organisations manage public resources.

3- To examine, once again from the perspective of both the external VfM auditors’ and the clients, the impact of social factor interplay on the VfM auditors’ influence over the audited bodies and to identify the ways in which such social factors can enhance or hinder effective performance of the VfM audit. These social factors occur at the personal level, i.e. the competence of the auditors, based on their relevant experience, skills and
knowledge of the nature of the audited bodies’ business, the interpersonal level, i.e. the potential for client-auditor task interdependence, and the external level, i.e. the ambiguity in the process of the VfM audit.

This introductory chapter outlines and explains the nature and components of this thesis. It divided into five sections, including the Introduction. Section 1.2 details the research questions. The research motivations, and the importance of the study, are discussed in section 1.3. An outline of the research’s epistemological and methodological framework is provided in section 1.4. Finally, section 1.5 provides the structure of the Thesis.

1.2. Research questions

The literature reviewed, together with the discussion in the objectives listed in the last section, thus gave rise to a number of questions. Cresswell (1998: 98) advocated the writing of a ‘Purpose Statement’ that states the objectives to be achieved and formulates a framework for study. The purpose of this Thesis is to:

‘Provide theoretical explanations to show how the external auditors and the clients, i.e. professionals and Operational Managers, perceive the utility of the VfM audit in terms of improving performance in the UK Public Sector institutions’.

It was considered that the expectations of the VfM auditor’s roles, held by the auditors and the clients, can influence their perceptions of the VfM audit performance and its impact on the audited bodies. For example, if there is an expectations gap as a result of
unreasonable expectations (see: Porter, 1993) held by the clients, regarding how far the VfM auditors can go in terms of working with them to remedy problems and improve performance, then these clients are more likely to have a negative perception of the usefulness of the VfM audit in improving performance in their organisations. Therefore, the first question is:

**Q 1. What do the external auditors and the clients expect from the external auditors in relation to the VfM audit?**

Having investigated an audit expectations gap between the external VfM auditors and the clients, the endeavour was to examine the impact that this type of audit has on the audited bodies and whether it has made a real change in the way they manage public resources. Hence, the second question is:

**Q 2. How do the external VfM auditors and the clients perceive the impact of the VfM audit on the audited bodies’ performance in the UK Public Sector?**

The third question is to examine the impact of possible factors (these factors have been listed in the last section) in the VfM audit environment at the personal, interpersonal and external levels, on the performance of the VfM audit and how these factors can enhance or mitigate the influence of the VfM auditors on the audited bodies. Therefore, the third question is:
Q 3. How do the external VfM auditors and the clients perceive the impact of the interplay of social factors at the personal, interpersonal and external levels, on the effective performance of the VfM audit and its impact on the audited bodies?

The formulation of the research questions considered the fact that the research problem largely requires data from an insider’s perspective of the participants. The information obtained from these three questions was two-fold: first, information represents the expectations and perceptions of the external VfM auditors and the clients themselves about the VfM audit and its impact on the audited bodies’ performance (ontological)\(^1\) and, second, information represents the auditors’ and the clients’ evaluation of the usefulness of the VfM audit in improving performance and the impact of social factors on its effective performance. This evaluation is based on both parties, i.e. auditors’ and clients’, perceptions of the VfM audit performance (epistemological)\(^2\).

1.3. Contribution to knowledge

This section presents a summary of the contributions made by this research to our knowledge, and more discussion about this issue is presented in the Conclusion and Discussion chapter. In answering the research questions, this current study seeks to make the following contribution to knowledge:

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\(^1\) This has represented the ontological stance of this study since the reality of the utility of the VfM audit is socially constructed and based on the perspective of the actors, i.e. external auditors and clients, who are directly involved in the processes of VfM audit.

\(^2\) This has represented the epistemological stance of this study because the information elicited has based on participants’ subjectivity.
The literature on the audit expectations gap is limited since it has centred on the Private Sector audit perspective. This Thesis is contributing to the growing body of knowledge on the audit expectations gap by extending this knowledge into the Public Sector audit.

The literature on an audit expectations gap has focused on identifying the existence of such a gap between the auditors and different users of the financial statements concerning the duties and responsibilities that are supposed to be fulfilled by the auditors. However, the same literature dismissed the audited organisation’s perspective. Therefore, this Thesis contributes to the literature on an audit expectations gap by providing a better understanding of the process of the VfM audit, as expected and perceived by the external auditors and the clients (professionals and Operational Managers from the UK Public institutions).

Previous studies on an audit expectations gap sought to identify the existence of such a gap, either between the auditors’ and clients’ expectations of auditors’ roles or between their perceptions of the usefulness of the audits without identifying a correlation between these two types of gap. Therefore, this Thesis contributes to the literature on an audit expectations gap by identifying a negative correlation between the client participants who have unreasonable expectations of the external auditors’ roles in relation to the VfM audit and those clients’ perceptions of the usefulness of the VfM audit to improve performance in their institutions.

By using qualitative methodology, based on semi-structured interviews, this Thesis has uncovered what is actually happening in the real world of the VfM audit. It has discovered new sources of knowledge about the external VfM auditors’ and the clients’ expectations of the VfM auditors’ roles, how both parties perceive the usefulness of the VfM audit in improving performance in the UK Public Sector, why a gap in expectations
or perception exists and, consequently, how it affects the performance of auditing in terms of its impact on the audited bodies.

- The process of the role-taking model, based on Katz and Kahn’s (1978) role theory, acknowledges the complex interrelationships of variables impacting the process of role-taking between the external VfM auditors and the clients, and stretching from the most general to the most specific, e.g. external to interpersonal and personal factors. Hence, by using Katz and Kahn’ role-taking model, supported by the use of a qualitative methodology, I was able to provide an insight into the main sources and consequences of various types of role conflict arising during the process of the VfM audit. I was also able to provide an insight into the impact of the personal, interpersonal and external factors (these factors have been listed earlier) on the external auditors’ values and professional status.

- This Thesis also adds something to the substantial body of literature on perceived power asymmetry in auditor-client relationships but this time in a VfM audit. It has confirmed that the influence of social factors, which have been mentioned above on the process of role-taking between the external auditors and the audited bodies, have a significant impact on the power asymmetry in auditor-client relationships and shifted the balance of power to the clients’ side.

- This current study has contributed to the longstanding lack of knowledge of the practices of the VfM audit by documenting the perceptions of those actors who are directly involved in the process of the VfM audit about its performance in terms of improving the delivery of VfM services in Public Sector institutions.
1.3.1. Contribution to the Role Theory

As mentioned in section 1.1, this study views the VfM audit through the lens of the process of the role-taking model based on Katz and Kahn’s (1978) role theory. Although Chapter 3 discusses the process of role-taking in more detail, the following discussion introduces the contribution made by this study to the model of role-taking.

In their role theory, Katz and Kahn refer to each member of an organisation as a focal person directly associated with other members adjacent in the work flow structure, or in the hierarchy of authority. These members constitute the focal person’s role set or role senders. Katz and Kahn argued that the process of role-taking, as it occurs between the focal person and the role-senders, consists of two stages. In the first stage, the role-senders develop expectations, namely, preferences about what the focal person should do, or avoid doing. These expectations are based on an organisation’s rules and regulations. Having developed expectations, the role-senders then communicate their expectations to the focal person in an attempt to influence his or her behaviour. Based on the focal person’s perceptions and reactions to the communicated expectations, the second stage of the process of role-taking will begin.

In this second stage, the role-senders hold expectations about the focal-person's actions. They also have perceptions about what he or she is actually doing. The role senders correlate both these factors and exert pressure to influence the focal-person to make a real change in behaviour which will conform to role-senders’ expectations. Katz and Kahn (1978) identified three factors (organisational, personal and interpersonal), all of which may influence the focal person's responses to the role-senders’ judgements.
Organisational factors refer to organisational structure, the technology of the organisation, its formal policies, rewards and disciplinary actions. Personal factors refer to those attributes of the focal person which influence his or her propensity to behave in certain ways, such as their motives and values, defensive preferences, sensitivities and fears. Finally, interpersonal factors refer to the quality of relationships between the focal person and the role senders (Wickham and Parker, 2007; Stone-Romero et al., 2003).

Following such a model, this study refers to each of the professional and Operational Managers in Public Sector organisations as a focal-person and to the external VfM auditors as the focal person’s role-senders. In addition, it is suggested that the process of the VfM audit implies an interaction and communication between the auditors and the audited bodies. This process constitutes an attempt by the auditors to influence the audited bodies, both to make a real change in the way they manage public resources through applying the VfM audit’s recommendations and to improve performance (Morin, 2001).

Despite the plethora of research on Katz’s and Kahn’s role theory and its applications, the following issues, to the best of my knowledge, have not yet been academically considered:

1- The impact of the role-senders’ individual attributes on the process of role-taking.

Katz and Kahn’s role-taking model highlights the significant impact of the focal person's individual attributes (e.g. motives and values) on the process of role taking. However, Katz and Kahn do not explicitly examine the influence of the attributes of the role-
senders on the process of role-taking. Therefore, this current study contributes to the process of the role-taking model provided in Katz and Kahn’s (1978) role theory by extending their model to examine the impact of these negotiation-related factors on the process of role-taking.

2- The impact of the interplay of social factors on the power of the role-senders.

Katz and Kahn discussed the impact of the authority, or power role-senders may exercise over the process of role-taking. They defined power as the authority which could be taken for granted by the empowered person in an organisation to influence his or her focal person. Yet they do so without considering a), its interplay with other social factors at the personal, interpersonal and external levels, which are shown by this study in section 6.3, and b), how these factors could moderate the impact on the focal person’s decision to comply with the sent role. Thus, this study extends the organisational role-taking model by examining how these factors could strength or weaken the power granted to the VfM auditors (role-senders) and how these factors could hamper or advance the VfM auditors’ influence with regard to their clients.

1.4. Research methodology and design

The methodological approaches available for the conduct of empirical research into auditing are extensive, but none can be considered as comprehensive or superior. Selection must be based on the location of the method that may best help achieve the study’s objectives and answer the concerns of the research. This section provides a brief
1.4.1. **Ontological and epistemological assumptions**

The ontological stance of this researcher accepts that the nature of reality is socially constructed and based on the subjectivity of the actors involved, in the research process as well as in the activities explored by the research. This implies that multiple realities exist and different perspectives need to be reported. Such an approach has the characteristics of qualitative research (Cresswell, 1998).

1.4.2. **Epistemological assumption**

The epistemological stance of this researcher accepted the fact that the assessment of the VfM audit is grounded in a high level of subjectivity due to the lack of standard criteria to decide which public service is VfM compliant, coupled with a variation in the perception of its performance and usefulness between the actors involved in the process. This research is thus based on soft data dominated by the subjective views (perceptions) of those VfM auditors and the clients who constitute the study’s participants. Hence, a qualitative research perspective emerges as an appropriate framework for the purposes of this research since it allows for the consideration of participant perceptions, which are the outcomes of their experience of work (Cassell and Symon, 1994).
1.4.3. Research design

The research design uses an explanatory ethnographic approach. The model of role-taking, based in Katz and Kahn’s (1978) role theory, was the tool adopted to explain and analyse the interaction and communication between the external VfM auditors and their clients. It was considered to be the most appropriate means with which, i) to investigate the audit expectations and the perception gap between the VfM auditors and their clients and ii), to examine the impact of the personal, interpersonal and external level factors on the process of role taking between the external VfM auditors and their clients. The data collection is based on semi-structured interviews with participants representing the external VfM auditors and the clients (professionals and Operational Managers) from different organisations across the UK Public Sector. Official documents, regarding the roles of the external VfM auditors, were also collected. These official documents show the responsibilities required of the external VfM auditors and, notionally delineate the extent to which these auditors may collaborate with the audited bodies in order to help find solutions for problems and improve performance in these bodies. These official documents were used as benchmarks to facilitate the investigation of the existence of a reasonable, or unreasonable, audit expectations gap between the external VfM auditors and their clients.

1.5. Organisation of the Thesis

Chapter 2: Historical Development and Literature Review
The aims of this Chapter are: (a) to provide the historical development of the VfM audit and the organisational reform (NPM) implemented by the UK Government with the aim of improving Public Sector performance; (b) to identify both the impact of the reform on the external auditors’ roles, as well as the ways in which professionals and Operational Managers become more accountable for their use of public resources; (c) to identify the research already carried out in the areas of the VfM audit, the audit expectations gap, role conflicts, and the impact of personal, interpersonal and external factors on the process of the role taking occurring among the external VfM auditors and the clients; and (d) to identify an appropriate theoretical framework through which to comprehensively consider and answer the research questions.

Chapter 3: Theoretical Framework

This Chapter presents aspects of Katz and Kahn’s (1978) role theory in more detail, particularly the process of role-taking and its suitability for the investigation both of audit expectations and perception gaps between the external VfM auditors and the clients, as well as the impact of personal, interpersonal and external factors on the bilateral process of role-taking. Accordingly this Chapter is organised as follows:

- Role-taking concept,
- Role-taking model,
- Role-taking in the context of the VfM audit in the UK Public Sector.

Chapter 4: Research Methodology

This Chapter shows the development of the philosophical framework of the research.
Mainly, it describes the execution of the research. In particular, it seeks to outline and to justify the philosophical assumption employed, and the methods used to collect and analyse the data.

Chapter 5: Presentation of Interview Results

This Chapter presents the data analysis based on four main categories: participant expectations of the external auditors’ role in relation to the VfM audit; participant perceptions of the VfM audit’s impact on the audited bodies and its value in improving Public Sector performance; potential role conflicts in the VfM audit environment; the impact of social factors at the personal, interpersonal and external levels on the VfM audit’s effective performance.

Chapter 6: Discussion and conclusion

This Chapter considers, through the presence of the data analysis carried out for this study, possible answers to the central research questions. The discussion is grounded in the issues emerging from the data analysis, and then linked to existent and pertinent theoretical perspectives. It also concludes the Thesis, giving the practical implications for the results of the research, and defining the contributions made by this study to knowledge in this subject area. The Chapter also indicates the limitations of this research and proposes related areas for future research.
Chapter Two: Historical Development and Literature Review

2. Chapter Two: Historical Development and Literature Review

2.1. Introduction

This Chapter reviews a broad range of the existing literature on the issues pertinent to the research objectives. The main aims of the review are a) to identify the research which has already been conducted in the fields of this study, and b) to indicate areas which remain to be researched.

The focus of this study is the perceptions of both external auditors and their clients in regard to VfM audit performance. The study aims to investigate audit expectation gaps between the two parties, i.e. external VfM auditors and clients, and to identify the nature of role conflicts in the VfM audit environment. It considers the effects of various factors at the personal, interpersonal and external levels on the process of VfM audit practices and evaluates, from each party’s perspective, the VfM audit’s performance effectiveness in terms of generating improved performance in the UK Public Sector institutions.

The study examines the perceptions of both parties i.e. the external auditors and their clients within the context of the organisational reform adopted by the UK Government since the late 1970s in order to improve accountability and performance in Public Sector institutions. The reform has intensified since the early 1980s after the implementation of New Public Management (NPM).
Chapter Two: Historical Development and Literature Review

This Chapter will explore the historical development of an external Public Sector auditor’s role in relation to the VfM audit before, and, consequently, as a result of the reform. It will also review the literature relevant to the research issues as follows:

The Chapter is organised into seven major sections including the Introduction. The second section explores the historical development of the VfM audit and the organisational reform of UK Public Sector institutions. The third section reviews the impact of the reform on the Public Sector audit and accountability in order to clarify the rationale for this study and to justify the selection of the interviewee sample. The fourth section reviews the perceptions of the external auditors and the clients regarding the VfM’s efficacy in improving performance in the audited bodies. This section also reviews the influence of factors at the personal, interpersonal and external levels on the impact of the VfM audit on the audited bodies’ performance, with particular emphasis on the ways in which these factors can enhance or hinder its effective performance. This is followed by section 5, which reviews the literature on audit expectations gaps and the possible ensuing role conflict between the external auditors and the clients. Section 6 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 7 describes an appropriate theoretical framework, which would help in answering the questions posed by this study.
2.2. Historical development of the VfM audit and organisational reform in the UK Public Sector.

2.2.1. Value for Money Audit.

The origins of audit work, examining administrative economy and efficiency in the UK Public Sector dating from the First World War and including the post-war crises (Normanton, 1966:201).

During the 1970s, public expenditure increased dramatically in the UK Public Sector, often by more than 10 percent per annum. This period was characterised by a period of high inflation. The Conservative Government came to power with a manifesto which resolved to improve efficiency and minimise waste in Public Sector expenditure. To do so, they attempted to put in place a strict financial policy including the use of cash limited budgets, cash planning, and the 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 or commercial auditing areas. Consequently, VfM auditing emerged as a powerful tool with which to reform Public Sector institutions (Power, 2000).

Explicit also in the manifesto of the present Labour Government (which succeeded the Conservative Government in 1997), is the emphasis on the VfM audit. This value 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).

In 1979 an Efficiency Unit, chaired by Lord Rayner, was established with the support of five to six full-time civil servants. The main duties of this unit were to advise the Prime Minister and other ministers 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, a process involving the assessment of the ‘three Es’ (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 an input was instrumental in achieving (Glynn et al., 1996).

Section 15 of the Local Government Finance Act of 1982 lays out the general duties of the auditor in Local Government for England and Wales. These duties are for the auditor to satisfy him/herself that the audited body has prepared adequate arrangements to safeguard the 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’. The legislation granted the Comptroller and Auditor
General 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 also created the Audit Commission (AC) for England and Wales under the terms of the Local Government Finance Act of 1982. It has also introduced VfM audits as statutory duties for the Commission. The Audit Commission has responsibility for undertaking VfM audits (undertaken either in-house or subcontracted to professional accounting firms operating in the Private Sector) of Local Government organisations and related bodies and operational branches of the National Health Service in England. Also, since 1st January 1984, the National Audit Office (NAO) was established, under the terms of the National Audit Act of 1983, to carry out VfM audits in Central Government (Lapsley and Pong, 2000).

Moreover, the VfM audit has been identified as a global phenomenon. In 1977 the European Court of Auditors (ECA) was established and charged with auditing all revenue collection and expenditure distribution. It has access to the documents of all relevant Governmental departments and organisations, and these are expected to be scrutinised and evaluated according to legal propriety and the principles of financial management. The court undertakes its duties in liaison with the member states’ respective supreme audit institutions. It has employed more lawyers and economists than auditors due to the differences between member state definitions of audit work (Wilmot, 1984:212).
Glynn (1985) also 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 United States of America started in the early 1970s to formulate principles and accounting standards and performing audits which have expanded to include a VfM audit. Meanwhile, Sweden was the first European country formally to adopt the VfM audit, through its National Audit Bureau, in 1970.

In Canada, the VfM audit appeared in the Canadian Public Sector’s auditing environment in 1977 and in 1985, the Auditor General in Quebec was authorised to carry out VfM audits in provincial departments and Government agencies (Morin, 2003). In addition, within the British Commonwealth, Canada was the first to adopt VfM auditing followed by New Zealand and Australia, where it was introduced in 1975 and 1979, respectively (Glynn, 1985).

By the 1990s, VfM auditing was fully established, with its own procedures and staff, in Australia, Canada, Finland, France, the Netherlands, New Zealand, Norway, Sweden, the UK and the USA (Johnsen and Vakkuri, 2001:585).

Finally, it is also noteworthy that within the VfM audit concept there are different descriptions and forms of audit, but all seek 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, the VfM audit could be regarded as a form of ‘performance auditing’ (Pollitt et al., 1999, cited in Arnaboldi and Lapsley, 2008:20), a notion which most frequently applied to European countries (Pollitt, 2003), or it could be more readily understood as a form of ‘comprehensive auditing’, as defined in North
America (Everton, 2003), or it could be essentially viewed as providing a best value audit, as has been inferred in the UK (Arnaboldi and Lapsley, 2008).

Summarising the historical development of the VfM audit in the UK Public Sector, it is apparent that since the 1970s, the UK Government has been more determined to keep pressure on public organisations through their management in order to achieve the maximum outcome potential from the public resources they are using, while reducing public expenditure to the lowest possible level. Therefore, the Government has 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 (Stewart and Walsh, 1992).

The following section illustrates the important features of reform occurring within Public Sector organisations. It also illustrates how this reform has intensified the focus on the VfM audit in the UK Public Sector.

2.2.2. Organisational reform or New Public Management (NPM).

The purpose of this section is to provide 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. Many of the reform-focussed studies discussed here are old, but must be included since more recent studies in this field of research are still heavily reliant on these earlier works.
As mentioned earlier, since the late 1970s the UK Government has recognised that a large share of the gross domestic product was represented by the Public Sector organisations without sufficient accountability and efficiency in the delivery of public services (Cochrane, 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 has 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 changes in order to restructure Public Sector organisations. This movement constitutes a reaction against perceptions of Public Sector immobility, expanded bureaucracy and cost, and created perceptions of ungovernability, which had been common in the late 1970s. As such, the Government constantly focussed on undertaking institutional reform within those Public Sector institutions involving education, Local Government, the civil service and the NHS (Ashburner et al., 1996). Issues of the level of expenditure, forms of expenditure and notions of accountability have become the focus of a political debate in the UK Government (Cochrane, 1993).

All parts of Public Sector organisations in the UK have been subject to investigation or legislation, 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 that 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). It was expected that, under this NPM framework, bureaucratic cultures are to be replaced by business-like cultures in order to restore efficiency and retain the effectiveness of public services (Šević, 2003b), and, consequently, the Public as a stakeholder will appreciate and support the Government, since public policy processes will be more cost effective (Šević, 2005). 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, competencies and behaviours required of the Public Sector managers, as a consequence, have changed considerably (Talbot, 1994).

Hood (1991) summarised the common themes that emerged from the organisational reform as follows:

1- The introduction of professional management or managerial accountability based on a clear assignment of responsibility for action.

2- The emphasis on explicit standards of performance measurement through identifying
clear goals and objectives.

3- Considerably more focus on output rather than on procedures for performance measurement.

4- The disaggregation of organisational departments into agencies.

5- The use of quasi-markets and contracting out to foster competition.

6- The introduction of market-style structures of management practice.

7- Emphasis on greater discipline and parsimony in the use of resources (cost-cutting).

However, the reform has been criticised, from a practicality point of view, by Šević (2003b) who argued that, although the adoption of NPM has certainly led to the promotion of performance measurement practices in the Public Sector organisations, it has not, however, helped to facilitate the application of market-style performance measurement practices to the Public Sector. He added that; shifts in modes of behaviour, and transformations in how civil services sees itself and how its relationship with politicians is defined, all are strategic changes that need to be implemented in order to have an effective business-like performance measurement in the Public Sector.

The reform has been also criticised by Butterfield et al. (2004) who examined the adoption of NPM reform within the Police Service in the UK, highlighting four main weaknesses related to the reform. First, they argued that the reform causes the rank and file constabulary more pressure and conflict since it still requires them to 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 in order to show performance. Here, it must be remembered that a strong
informal network of peers and constables exists, and this has determined which tasks have been completed, and the sergeants have no direct control over what has or has not been done. Third, measuring individual performances (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 weakened 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.’s (2004) study shows that the reform led to more detailed scrutiny and paperwork, formal recentralisation of control and an attempt to constrain operational autonomy. For example 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 a 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 an account 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 through
the changes in the NHS for example, in the move from a system based upon representative principles and planning to one which has adopted market styles and is based on Private Sector models. This ideology, Stewart and Walsh (1992) argued, allows considerable scope for interpretation and modification through the process of introducing and implementing change.

To counter the issues highlighted by such criticisms, Lawton and Rose (1991) argued that more factors should be taken into consideration when adopting the Private Sector models in the Public Sector. They highlighted a range of arguments which indicate the uniqueness of the Public Sector:

1- Objectives are difficult to define clearly as these might involve serving the Public, maintaining law and order, improving fairness, health, and living standards of the population.

2- Plans are mostly not strategic because of the short-term considerations of the politicians.

3- 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.

4- The functions are limited by statute in the Public Sector.

5- The Public Sector is funded by the tax payers’ money and not by charging for its services.

6- 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) posited, Public Sector organisations are not exposed to market competition and, therefore, have no incentives to operate efficiently by reducing costs. Such a view is supported by Bozec et al. (2002:385), who observed that the goals or 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 context, an auditors’ 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.

Overall, 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 instances, distinctly different (Cabinet Office, 1988, Para. 1.5, p.2.).

To summarise, the literature in this section presents the 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 of 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 summarise these changes.

2.3. The impact of the reform on accountability and auditing practices

The literature in this section presents a discussion of the impact of organisational reform on the accountability process and on the Public Sector audit. The broad aim is to justify this study’s selection of interviewees, i.e. the external VfM auditors and the clients (professionals and Operational Managers in UK Public Sector organisations).

2.3.1. Accountability

As mentioned earlier, the structure and patterns of the UK public service delivery have changed substantially over approximately the last three decades. This has imposed a considerable change on the Public Sector audit and accountability. Public Sector organisations are being fragmented with new forms of networks and sets of relations. Therefore, rather than the concepts of accountability and auditing fulfilling, which is required of them through the application of rules drawn from classic financial accounting and managerial economics textbooks, these same concepts are themselves becoming
contested issues. As such, managing these issues 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 as a result of the reform and have summarised the principals of that change. These principals can be considered through the definition of accountability. Brown (2003) 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’ (2003:32). Glynn and Murphy (1996) defined the term accountability “as the process via which a person or group of people can be held to account for their conduct” (1996:127). This definition, according to Glynn and Murphy, includes the classical accountability of stewards, the legal accountability of contracting parties, the professional accountability via which professionals, such as doctors, nurses or clinicians, 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 as Day and Klein, 1987 argued; they state that ‘one cannot be accountable to anyone unless one also has responsibility for doing something’ (1987:5). Simon et al. (1950) viewed responsibility in three ways:

1- Responsibility as a legal authority, e.g. having responsibility for a job.

2- Responsibility as a moral obligation, the parent for example has moral obligations towards their children, which should be fulfilled.

3- Responsibility as responsiveness to values, where a public servant is charged with
carrying out the performance of tasks with particular reference to the values, which are held by those charging the servant with carrying out the function.

Day and Klein (1987) added that, taking the third of these approaches into consideration, accountability can be defined as those methods, procedures and forces that determine what values will be reflected in administrative decisions. They stated that ‘accountability is the enforcement of responsibility’ (1987:6).

Accountability is not exclusive to the Public Sector, as Lawton and Rose (1991) argued; they stated that Private Sector organisations also 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, they argued that the Public Sector assumes a greater importance than the Private Sector does for the following reasons:

1- Public organisations are responsible for the handling of policies and tax payers’ money, as approved through democratic processes.

2- Because of the responsibilities entrusted to public servants, 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.

3- The objectives of Public Sector organisations might have multiple goals, which could conflict with each other. Private Sector goals, meanwhile, are more precise.

4- 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.

5- Public Sector organisations are frequently large with long chains of leadership. This 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 of accountability comprising five types: political, managerial, public, professional and personal accountability. Stone (1995) analysed 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: accountability as parliamentary control, the managerialist perspective of accountability, accountability as a judicial and quasi-judicial review, accountability as constituency relations and accountability as market relations.

Broadbent and Laughlin (2003) distinguish between two forms of accountability in the UK Public Sector, managerial accountability pertaining to managers and consisting of holding them accountable for their responsibility over public resources, and political or public accountability which applies to elected representatives and involves holding them accountable to their electors for the authority granted to them. The authors argued that if pressure on Governments has been mounting, the level of specificity of political / public accountability will change in a manner that mirrors managerial accountability. To elaborate this argument the authors discuss 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 the Government to justify PFI might 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 sceptical public about the justification of PFI through the adoption of macro fiscal control mechanisms, as the Public do not have control over the Government. This has led the Government to focus more on micro VfM control mechanisms, which strengthen managerial accountability.

In addition, Lawton and Rose (1991) identified three more dimensions of accountability in the Public Sector:

1- Accountability to the law, which applies when the actions of Public Sector organisations are subject to challenge in a court because of criticisms or complaints.

2- Accountability to consumers or clients. This means that individuals who feel aggrieved at decisions taken by the Public administration should have a right to appeal against these decisions.

3- Professionals’ accountability, where professionals who are experts with relevant qualifications in a specific area should be held accountable for their professional conduct.

The devolving of accountability under organisational reform to the professionals and Operational Managers, which has strengthened managerial accountability, has also been demonstrated by Šević (2004c). He argued that the reform has resulted in making line managers in Public Sector organisations more accountable and responsible for making the best use of public resources. He added that this could be done through the delegation
of budget expenditure decision-making to managers, but it should be also accompanied by precise measurement of outputs whenever it is possible, and the observance of the principle of cost-effectiveness.

Moreover, Glynn and Murphy (1996) examined the impact of the reform on accountability in the UK Public Sector. They question whether in fact the reform has been successful in improving Public Sector accountability. They point out principal changes in the accountability process under the organisational reform such as:

1- Dedicating a limited budget for Public Sector organisations to achieve their objectives. This means that public funds should be spent for appropriate purposes, while expenditures remain within the budget limit.

2- Devolving accountability for the performance of service to managers at operational level, as these individuals are directly involved in resources management and the delivery of public services.

3- Making professionals more accountable for the use of public resources and the outcomes achieved as a result of such use.

However, Glynn and Murphy expressed concern that the division between management and professional accountability becomes increasingly indistinct under the reform, as both groups are accountable for issues such as economy, efficiency and effectiveness of managing public resources. The authors 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
The nature of accountability in the UK Public Sector, as Quirk (1997) argued, has changed under organisational reform. He discusses this change from the viewpoint of the management in Local Government. He investigated 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. He 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 a 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.
2- Professionals and Operational Managers should be more accountable for the use of public resources in order to achieve the most possible outcomes.
2.3.2. **External Public Sector auditors’ roles.**

Parsons (1950) defined ‘role’ as that which a person, as an occupant of a position, does in relations with others. Katz and Kahn (1978) defined the concept of “role” as the summation of the requirements with which an organisation confronts the individual member. Van Sel et al (1981) adds that, within an organisational context, the term “role” could be defined as the summation of expectations applied to the incumbent of a particular position by the incumbent and by role senders within and beyond an organisation’s boundaries. Role, according to these scholars, signifies the way in which occupants of the position 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 the performance audit, where auditors are required to take on multiple roles, which were not perfectly reconcilable with one another. Auditors in the 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 measurement (Chowdhury et al., 2005).

Commenting on the role of Public Sector auditors, Percy (2001) argued that auditors appointed to report should be both independent and competent and should carry out their work, not only to maintain confidence in public spending, but also to add value by
constructively reporting on ways to achieve improvement in the delivery of public services. This highlights the expansion of the Public Sector auditors’ roles to involve a social role as well as their professional role. In the area of auditor competence, the auditors should be capable of carrying out a performance audit (Chowdhury et al., 2005).

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, as defined by statute, 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).

Therefore, the traditional focus of the Public Sector audit on regularity has been overtaken by giving the auditors responsibilities for investigating that proper arrangements are in place to secure VfM in the use of public resources and to enhance the 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) stated that the scope of Public Sector audit should go a step further than the standards and procedures which are applicable to audits of financial statements and involve elements such as:

1- Reporting on propriety, fairness and compliance of financial operations with applicable laws and regulations.

2- Determining whether the Public organisations are managing their resources
economically and efficiently.

3- Determining whether the desired results are being achieved, established objectives are being met and whether public organisations have considered the minimum cost alternatives, which might yield the desired results.

Moreover, the volume of routine audit work has also increased after the reform’s implementation, which in turn has led to an increase in the number of separate organisation units and the creation of different agencies providing Public Sector services. Each of these units and agencies is required to submit separate accounts, which have to be audited individually each year (White and Hollingsworth, 1999).

Weir and Hall (1994) drew attention to the huge inconsistencies in audit coverage of publicly funded bodies in the UK Public Sector as a result of organisational reform. The authors discussed the growth of extra-Government organisations (EGOs) and questioned the existence of appropriate mechanisms of democratic audit and accountability for every EGO. They concluded that these organisations are heterogeneous groups and that the audit and accountability mechanisms vary from one body to another. They argued that these organisations are not fully controlled by the formal representative institutions, such as Parliament, which has a limited capacity to deal with them. This has brought to light 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 the Public Sector audit before reform, and its character after the reform’s implementation (Glynn and Murphy, 1996), 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. This change, they argued, has led to a dramatic transformation in the UK Public Sector accountability arrangements. This being the case, executives and operational managements have to be 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 become separated and the most auditable parts have been left at the operational (consumer - provider) level rather than at the strategic level.

The audit arrangements have also changed from a reactive examination of the accounting system and financial statements to a more proactive examination through participation in planning various reviews, performance evaluation (performance audit), and preparation of financial guidelines. Therefore, the Public Sector audit scope has extended to provide considerable services in strategic and operational planning. This, however, might cause concern about involving Public Sector auditors in consultancy services by, say, consulting them while preparing financial guidelines and accounting system, then requiring them to report on the implementation of these guidelines and systems, which might conflict with their professional standards (Pat, 1996).

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 era is shaped by the development of the VfM audit in which Public Sector auditors are required to assess the management’s and professionals’ performance and to report on important issues such as economy, efficiency and effectiveness of the resource deployment in pursuance of programme
objectives.

However, since the broad aim of this study is to investigate the existence of audit expectations and perception gaps between the VfM auditors and their clients, it is vital to find out precisely which studies have been carried out in order to question, from the perspective of the actors directly involved in the VfM audit (i.e. the external VfM auditors and the professional and Operational Managers in the Public organisations) the impact that this type of audit has made in the audited bodies. Has it made real change for the audited bodies, in terms of the way they manage public resources? Which factors can enhance the influence of the VfM audit and hinder its effective performance?

2.4. Auditor and client perception of VfM audit performance and factors influencing its effective performance.

As mentioned earlier, the VfM audit has emerged as an important tool in the process of redesigning the practice of public organisations. It is 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, 1999). As such, the auditors appointed to report should be both independent and competent and should 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). In the area of auditor competence, the auditors should be able to carry out a performance audit (performance measurement) (Chawdhury et al., 2005).
However, administrators in the auditing bodies might experience a dual problem when they attempt to improve performance in the audited bodies. The first hurdle is to determine how to obtain the confidence of the management 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 managements without compromising the reality and image of an independent audit (Brazelay, 1996:51).

Therefore, in order to assess the effective performance of the VfM audit it is vital to examine how both parties, i.e. VfM auditors and clients perceive the VfM audit and its usefulness to improve performance in the audited bodies.

So far, the present tendency of research on the VfM audit performance is to focus on the views of the auditors and the audit institutions (Power, 2003b; Arnaboldi and Labsley, 2008 and Morin, 2008). Hence, the motivation for this research is the lack of literature directly examining, from the view point of those actors (i.e., the VfM auditors and the professionals and Operational Managers in the audited bodies) who are directly involved in the process of VfM audits, the contributions that such an audit has made, in terms of adding value by constructively reporting to achieve improvement in the delivery of public services. This research also seeks to determine the factors at the personal, micro and macro levels which may enhance or hinder its effective performance.

To provide answers to these questions, this section reviews a broad range of the existing literature on the perceptions of VfM auditors and their clients in regard to VfM audit performance. The main aim of this review is to identify any relevance the literature has
to the concerns raised by this research.

Within the literature, 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 important task of assessing its factors, i.e. economy, efficiency and effectiveness, as well as considering the practical difficulties surrounding the assessment of these factors. The importance and the difficulties, according to Bowerman (1996), can be intimated through the non-existence of any general agreement on the meaning of the term (VfM) audit. She identifies six different, but not exhaustive, approaches to the VfM audit: review of management systems, arrangement and procedures; the performance procedure audit; policy audit; audit of management representations of performance; comparative performance audit; and quality audit (p. 585). Therefore, the review of the existing literature will be confined, as far as possible, to these two areas, i.e. importance and difficulties, across different countries.

In his Thesis “The Audit Society”, Power (1997) reviewed the irrepressible spread of the audit into areas far beyond the traditional financial focus in the UK public bodies. He presents the audit as a central player in the reinvention of public Governmental bodies. He claims that performance auditing bodies have increased their 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 an audit or inspection. However, Power argued that these claims need more empirical support. He conceptualised that the pervasive presence of the audit on society can lead to legitimation, colonisation and culture change, and displacement of core organisational activities.
On legitimation, Power (1997) presumes that because the audit per se is a rationalised ritual, it is conceivable that it could produce ‘comfort or organisational legitimacy’. He argues that the audit can achieve making things auditable by having auditable measures of performance and systems of control and the reliance on expert opinions, all of which can contribute to legitimation. However, Power (1997) also observed that ‘even though audit files are created, checklists get completed and performance is measured and monitored in ever more elaborate detail; audit concerns itself with auditable form rather than substance’ (1997:96). He argues that in this way, the impact of the audit process may be marginalised.

On colonisation and culture change, Power observed that the audit may be mobilised to counter and challenge the power and discretion of the professionals in an organisation. In this way, Power observed, the process of VfM auditing could be explicitly considered as a process for organisational change. He argued that the process of compliance by the professionals with the demands of auditors is not neutral, and may result in the dissemination and implanting of the values underlying the audit approach, thereby achieving colonisation.

According to The Audit Society, there are factors which could indicate that the process of the VfM audit has achieved colonisation within an organisation. First, audit activity dominates all parts of the organisation and becomes a dominant reference point for all organisational activity. Second, the values and practices of VfM auditing penetrate deep within the core of the organisations. This situation, in Power’s view, would be evidenced if actors in audited bodies demonstrated new ways of thinking, new incentives and new perceptions of what is significant or irrelevant. Third, in Power’s view, outright
colonisation is rarely successful since colonisation may produce varying forms of resistance and conflict amongst actors within organisations.

Finally, in respect of displacement of core organisational activities, Power observed that the process of the VfM audit may create a dysfunctional impact or adverse effects through which there are unintended consequences of the audit activities. He argued that these adverse effects may fail the audit process and undermine its performance. Such impacts may include the displacement of core organisational activities by the fulfilment of the audit agenda. He added that the consequences for these impacts may also include: information overload, misdiagnosis, decline in organisational trust, the presentation of reports that ‘audit works’ (even if it does not), and a desire that ‘auditable performance’ becomes an end in itself (Power 1997:120–1). This may occur where there is a preoccupation with providing information which supports the demands of auditors, and in so doing lacks the capacity to deliver on other organisational tasks.

Bowerman et al. (2000) drew 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 above three public service organisations. Although the authors identified 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 audit ability. However, the authors disagree with Power’s argument concerning the impact of the performance audit, in terms of improving accountability and performance within the
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audited bodies. Instead, they argued, that the performance audit can be seen as just one element within a wide range of performance measurement and monitoring vehicles (e.g. self-assessment or inspection), which are being used by Public Sector managers and officials to improve accountability and performance.

In addition, Powerman et al.’s (2000) analysis in relation to the performance audit raises a range of problematic issues, which might hinder VfM 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 (and others) give credit for improved performance. This was supported by Šević (2003b) who was sceptical about how performance in the UK Government departments has been judged, or the incentives for those who perform well, as well as punishments for those who seriously underperform, have been identified. 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 Public Sector auditing influence 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, the existence of restrictions on the Public Sector auditors’ right to criticise Governmental bodies’ policy. This 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 judgements, on both information credibility and achieved levels of performance, may be more useful than the current quantities 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 performance and assess the performance of these organisations.

In contrast, Arnaboldi and Lapsley (2008) provide empirical evidence which supports Power’s Thesis in terms of the impact of Public Sector performance auditing on the Public audited bodies. The authors draw on Power to assess the perceptions of management in Local Government in Scotland, and how the Best Value Audit, (which is the expansion of the term VfM audit) has impacted upon them. Arnaboldi and Lapsley considered whether management sees audit ideas as a critical reference point in guiding its actions, through interviews with auditors and managers with designated responsibility for Best Value, as well as with senior professionals with significant responsibility for service delivery from Local Government bodies. They revealed strong evidence to support Power, particularly regarding the manner in which audit practices are deployed by agencies of Central Government with the intent to shape the management of Local Government bodies, in relation to the three possible outcomes: colonisation of ideas (or culture change), legitimating role and the displacement of core activities, which were also discussed by Power (1997). Their analysis revealed limited legitimating behaviour, some colonisation, but also a picture of resistance in the field. They found 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 the Best Value Audit as a box-tick exercise, rather than acting upon its guidance.

Moreover, the problematic nature of applying the VfM audit in practice shows Power’s
Thesis regarding the appropriateness of this type of audit as a management tool to improve performance and accountability, to be somewhat overoptimistic. Lapsley and Pong (2000) examined the practice of the VfM audit in Scotland. They highlighted the importance of VfM audits as tools for modernisation and the view of the VfM audit as a problematic exercise. Based on a three stage process of data collection, i.e. stage 1), initial discussions with twelve committee members, stage 2), members of the committee were then sent a set of questions and stage 3) on receipt of the responses to questions sent during the second stage, clarification was sought with the members of the committee. They examined the VfM audit from the perspective of an expert group of VfM auditors employed by the Accounts Commission, the National Audit Office and also auditors from private accounting firms who were experts in VfM audit. They questioned the perceptions of the professional group in relation to VfM audits, the usefulness of this type of audit to improve performance, the VfM audit in practice and the future of the VfM audit. They concluded that VfM has entered the language of Public Sector auditors and is now taken for granted. They add that the VfM audit has 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.

However, Lapsley and Pong (2000) pointed to practical difficulties with regard to the quality of information available to assess the VfM audit (economy, efficiency and effectiveness). They argued that the determination of what constitutes ‘best practice’ is the major potential difficulty for VfM auditors. In addition, they argued that these VfM auditors, and the studies they carry out, are firmly within the provenance of accountants and auditors. Consequently, difficulties have been identified whereby VfM auditors focussed on quantification, in general, but particularly on cost savings, while other
professional groups identified with other values that were not captured by monetary terms. Finally, they identified the continuing persistent problems advanced by some professionals who expressed caution over the usefulness of the VfM audit. They also highlighted a perception gap between financial professionals (auditors and accountants), who react positively to the VfM audit, and other professionals (e.g. solicitors and educationalists) who tend to be defensive and assume that they are being unfairly criticised.

Nonetheless, Lapsley and Pong’s (2000) study has some limitations. These limitations stem from the small size of their study sample (twelve expert auditors) and their neglect of the audited bodies’ perceptions about the impact of the VfM audit on their organisations.

Another issue which exacerbates the problematic nature of the VfM audit, and influences the way it has been perceived by the auditors and the clients, is the high level of subjectivity in the assessment of economy, efficiency and effectiveness. For example, Pendlebury and Shereim (1990) argued that the effectiveness of many Public Sector organisations is notoriously difficult to determine. Objectives are mostly imprecise and ambiguous, and even if they are not, it is frequently impossible to measure their achievement. Under such circumstances the assessment of effectiveness is more likely to be based on a subjective process and the appropriateness of involving auditors in this process has always been a matter for concern.

In 1946, a House of Commons report contained the following comment:
“When you are getting down to the question of whether you are getting value for money, it is not a question of expert advice, it is a question of a common sense attitude to a public problem which can only be achieved by the combined abilities of a group of men with different aspects, coming from different walks of life, with different ideas; and that examination is not going to be materially helped by a body of expert auditors or accountants” (Cited in Pendlebury and Shereim, 1990: 177).

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 ambiguity might function to justify a variety of interpretations of VfM: i.e., difficulties of generating, in operational terms, what constitutes ‘efficiency’ and ‘effectiveness’; and the particular difficulties of identifying the potential for dysfunctional application and use, as well as the consequences of such varying interpretations of efficiency and effective measures.

Pendlebury and Shereim (1990) carried out a quantitative study in the UK Local Government to examine the attitudes of Public Sector auditors towards effectiveness auditing. The study involved auditors from the NAO, AC and Private Sector accounting firms. They questioned whether the audit of effectiveness was achievable, whether existing external auditors were the right individuals to undertake an effectiveness audit, whether this audit should be carried out by a team of auditors and trained experts who are drawn from other disciplines, and 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 judgement based on subjectivity to assess effectiveness in public services. Auditors also insist that an effectiveness audit is achievable and that they are the appropriate individuals to be involved.

However, the study indicates a disparity of views between the three groups of auditors with regard to the effectiveness audit. For example, the NAO auditors deemed themselves the most important group in evaluating effectiveness, while auditors from AC and private accounting firms were slightly more diffident in this regard. They were prepared to concede that specialists and managers in the services departments are more important than themselves in terms of evaluating effectiveness.

Pendlebury and Shereim’s 1991 study duplicated the study which they carried out in 1990. They surveyed a group of managers from three Local Government service departments (i.e. forty-one respondents from Social Services and Environmental Health and one hundred and ninety respondents from the Finance departments). They examined these managers’ perceptions towards the same issues with regard to audit of effectiveness, which they used in 1990, to examine the perceptions of a group of auditors, and found disagreement between auditors and service department managers over the meaning of the phrase ‘effectiveness audit’. The study shows that managers from Environmental Health and Social Services departments are less convinced of the appropriateness of the auditors’ involvement in effectiveness audit than their counterparts from the Finance department, who tend to be more supportive of auditor involvement in this type of audit.
By comparison, Roberts and Pollitt (1994) examined the perceptions of audited organisations and the parliamentary activities which followed the publication of the NAO report on the VfM audits, 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) in order to Create and Safeguard Jobs in Wales (CSJW).

The NAO was concerned to know:

1- How the audited bodies (Welsh Office, WDA and DBRW) measured and monitored the number of jobs created or safeguarded by the different initiatives.

2- To what extent these bodies had assessed overall costs and benefits of the initiatives.

3- How far the audited bodies had identified and taken action on factors which constrained progress in creating and safeguarding jobs.

The authors examined relevant official documents and conducted interviews with thirteen officials from the NAO and the audited bodies and four interviews with the Public Accounts Committee (PAC) and academic experts in the field of regional economics and geography in order to address the concerns stated above.

They pointed out that the NAO perceived the impact of their report as a positive one since it might stimulate the WDA to evaluate its major programme 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 could not capture the wider issues (macro-economic approach), such as the quality of jobs created and the environmental or cultural programmes, which create the climate for jobs.

Roberts and Pollitt (1994) added that the VfM auditors made an important contribution to public policy debates, but with some limitations. These limitations stemmed from the VfM auditors reluctance to offer explicit recommendations to management and oversensitivity to the political culture in which these audits are undertaken. However, they based their conclusion on a very small sample of auditors and clients from the audited organisations.

Auditors’ client-held perceptions of the impact of the VfM audit on the audited bodies can also be found by examining the extent of the audited bodies’ implementations of the VfM auditors’ recommendations (Pollitt et al. 1999, p. 180).

Pollitt et al. (1999) presented a comparative study of five European countries, i.e. France, Finland, Netherlands, Sweden and the UK. They examined the impact of the VfM audit on the audited bodies. Their measurement of the impact of the VfM audit was based on the proportion of the recommendations applied by the audited bodies. The authors identified a gap between the perceptions of the auditors and those of the audited bodies’ managements.

The auditors interviewed perceived that their recommendations influenced the audited bodies, discouraged them from adopting risky management practices and positively impacted the performance of the audited bodies. However, the audited bodies were not
convincing of such an impact since this type of audit, from their point of view, has a consequence of work overload. In addition, 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 authors highlighted 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) provided empirical evidence from Finland and Norway regarding the VfM audit performance and are in contrast to the findings of Politt et al. (1999). Johnsen et al. identified a considerable level of consistency between the auditors’ and the audited bodies’ perception 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, which result from the involvement of inexperienced VfM auditors, the informants perceived the performance audit to generally function as a useful and rational public management tool. Compared to the financial statement auditing, the authors found that the VfM audit has a more visible connection to both performance improvement and day-to-day management processes. However, the authors highlighted the influence of environmental factors, in particular political issues, on the performance of the VfM audit. Their analysis revealed 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.
In Canada, Morin (2001) interviewed eighty-one participants (forty-one from audited bodies, thirty-eight auditors and two representatives of parliamentary bodies in Quebec Ottawa / Canada) to examine the impact that the Auditor’s General reports have on the state of affairs in the organisations audited. His study questions whether the VfM reports are effective instruments to the extent that they could make a real difference in public administration through the VFM audit practice. Morin examined six VFM audit reports performed in the Government of Canada and Quebec in 1995 and 1996. He found that two of the six VFM audit reports succeeded in influencing the state of affairs in the organisations audited. In two reports the attempt to influence was less successful and the last two reports, being utterly unsuccessful in this regard, aroused more negative feelings, dissatisfaction, and resistance in the audited bodies. The author concluded that there are many a priori beliefs about the VFM audit, especially concerning its effectiveness as an instrument to control and improve the management of public organisations.

Auditor and client perceptions of the VfM audit performance could be identified through examining the types of relationships that auditors maintain with the audited bodies. Morin’s exploratory study (2003) in Canada sought to address these relationships by posing the following questions: (1) how do the auditors perceive their roles (controllers or participators in performance improvement) as VfM auditors? (2) What are they influenced by? (3) What are the values that motivate them? and (4) how do auditees react to the auditors’ influence attempts?

Morin found that the role of the VfM auditors as controllers is more credible in the auditees’ eyes than the role of a catalyst for change and improvement. He found that the
VfM audit could be perceived as a social influence process which might arise between the auditors as a source of influence and the auditees as a target of that influence. However, he expressed concern that administration might trigger a defensive reaction against the VfM audit report through which concerns of performance improvement, and also auditors’ independence, in relation to the audited organisations might be compromised.

This finding is consistent with that of Brazelay (1996: 51) who ascertains that administrators from the auditing organisation might experience difficulties in making contributions to performance improvement in the audited bodies. These difficulties stem from their ability, or otherwise, to build up a co-operative relationship with the auditees and to determine how to improve their reputations and build trust with their auditees in order that their recommendations to be accepted and implemented by the audited bodies.

Overall, the literature in this section discusses the impact of the 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 is now embedded in a day-to-day organisational life, its impact as a management tool for improvement should not be taken for granted.

In addition, scholars such as Robert and Pollitt (1994); Powerman et al. (2000); Morin (2001; 2008); Percy (2001); Johnsen et al. (2001) and Chowdhury et al. (2005), called for research on measuring the impact of the VfM audit in order to focus on the influence of environmental factors and how these factors can enhance or hinder the effective performance of the VfM audit. Morin (2001) argued that the auditors’ style of
leadership, their credibility in the eyes of the auditees and the connotations perceived by
the auditees in the influence modes, and the use of statutory power by the auditors, are
all factors that could enhance or hinder the effective performance of the VfM audit. The
author has identified other environmental factors which affect the VfM audit impact as
follows: the will at staff level and in the central authority of the audited organisation,
political will, the timing of the VfM audit, major reform in the audited bodies, reform at
Government level, location of the activity audited and possibly that of their
recommendations within the priority scale of the audited organisation’s management.

Roberts and Pollitt (1994), Powerman et al. (2000) and Johnsen et al. (2001) share a
similar view to that expressed by Morin (2001) regarding the impact of environmental
factors on the impact of the VfM audit. These scholars argue that limitations on the VfM
auditors’ right to criticise the policy of Governmental bodies have undermined their
impact on these bodies.

The following section addresses the ways in which these environmental factors might
affect the impact of a VfM audit and shape auditor and client perceptions of the effective
performance of this type of audit.

2.4.1. Research on social factors affecting the impact of VfM audit.

The literature suggests that the process of the VfM audit involves interaction and
negotiation between the auditors and their clients preceding the issuance of the VfM
audit reports. Morin (2001) argued that this process of interaction and negotiation
implies an attempt by the VfM auditors to influence their clients to comply with their expectations, in terms of the way they manage public resources. Morin (2001) adds that the level of the VfM auditor’s ability to influence was determined by their statutory power over their clients. This statutory power, he argued, is likely to be initiated from two main sources: firstly, the fact that they represent official audit bodies, (e.g. the NAO or the AC) which are linked to Parliament. Secondly, the audit process in general has been historically recognised as a control function. In addition, the literature suggests that this negotiation process is likely to be either advanced or weakened as a result of the influence of other social factors in the VfM audit environment.

From earlier discussions of the literature on the impact of factors on the VfM audit performance by Roberts and Pollitt (1994), Powerman et al. (2000), Morin (2001, 2008), Percy (2001), Johnsen et al (2001) and Chowdhury (2005), it can be inferred that there are factors at the personal (the competence of the VfM auditors to undertake a thorough examination of the evidence provided by the audited bodies and provide them with value added recommendations), interpersonal (task interdependence between VfM auditors and clients) and external level (the ambiguity surrounding the assessment of the VfM audit factors, i.e. economy, efficiency and effectiveness), that can interplay with the statutory power of the VfM auditors and affect their influence over their clients. Therefore, prior to the discussion about the interplay of these interrelated factors with the statutory power of the VfM auditors, to aid our understanding it is vital to discuss the interplay between the terms ‘Power, authority and influence’.

Dahl (1957) defined power as ‘a relation among social actors in which one social actor, A, can get another social actor, B, to do something that B would not otherwise have
done’ (1957: 202-203). Influence has been defined as ‘ways of getting results in interaction’ (Parson, 1963:42). Pfeffer (1981) argued that authority associated with a particular position in an organisation is an important formal source of power. He adds that, in a social context, power could be transformed into authority, which is likely to strengthen the influence of certain members in an organisation over other members. He also argued that, within formalised organisations, the norms and expectations developed would make the exercise of influence expected and accepted by these organisations’ members. Thus, social control of a member’s behaviour by others becomes an expected part of organisational life.

French and Raven (1959) identified five sources of social power: legitimate, reward, coercive, expert, and referent power. They argue that legitimate power is based on the target’s perception that a source has the right to influence the target and that the target ought to comply. Reward and coercive power are based on a target’s perception that a source has the ability to provide rewards or punishments, respectively, for the target. Expert power is based on the perception that the agent has some specialised knowledge. Referent power is based on identification with, or the desire to be associated with, the agent. This identification of the sources of power by French and Raven (1959), indicates that both parties, e.g. superiors and subordinates in an organisation, may have power over one another. This power could be derived from each party's statutory power or professional experience. Similarly, Pfeffer (1981) argued that the amount of power actors possess is derived from the importance of their tasks and their competence to perform these tasks effectively. He postulates that ‘to have an important and critical function, but to fail at it, will not provide much power’ (1981: 8) and adds that it is important for actors to accomplish their tasks, but it is more important for them to
convince others within the organisation that their specific tasks and their abilities are substantial and important.

In addition, Tedeschi et al. (1972) identified four characteristics of the source of influence, which are likely to enhance his/her ability to influence the target: the status and prestige of the source, on the one hand, and the attraction and esteem for the source, on the other hand. Tedeschi et al. (1972: 381) defined the status of the source of influence as the ‘authority associated with a role position’ The authors postulated that: ‘high status should authenticate or bias upward the subjective probability component of a message and hence facilitate the effectiveness of all of the influence modes, as long as the communications are perceived as relevant by the target’ (ibid: 389). The authors defined the prestige of the source in terms of perceived power. They suggest that ‘high prestige should be positively related to both the frequency and the success of influence attempts’ (ibid: 306).

The literature, discussed above, indicates that each member in an organisation has some sort of power. This power initiates from a statutory power and authority associated with his/her position. Nonetheless, this power should not be taken for granted over other members, e.g. subordinates, since they too may have power, which stems from their professional knowledge and experience. Hence, the interplay between social factors, mentioned above, with such power might either advance or weaken that power. These factors, i.e. personal, interpersonal and external, will be discussed in the following subsections.
2.4.1.1. Factors at the personal-level

Social factors at the personal-level could include the personal quality of the VfM auditors. This personal quality stems mainly from their competence to undertake VfM audits and provide their clients with value added recommendations.

Accountancy has been considered as a profession (Hudaib, 2003). Hickson and Thomas (1969) emphasised the trait approach to identify important characteristics within a profession. This approach argues that professionals display specific characteristics which distinguish them from other occupations and seeks to identify core attributes and essential elements of a profession. The traits include skills based on theoretical knowledge, provision of training, testing of member competence, adhesion to a professional code of conduct, and altruistic services. Flint (1988) also suggested five features that qualify auditing as a profession: (1) offering essential services to the Public, which requires specialist knowledge and skills, intellectually based with a systematic theory and necessarily requiring an advanced level of education, training and experience to obtain competence; (2) due to the nature and complexity of the audit services, those untrained in them cannot competently judge their quality; (3) as a result of (2), a procedure is required to distinguish between those qualified to provide the services in the interest of protecting the Public and those who are not; (4) a commitment to objectivity, impartiality and service in the Public interest is required due to dependence of the Public on the practitioners’ honesty, integrity, and renouncement of self-interest; and (5) the necessity of a procedure to monitor the maintenance of standards of competence and behaviour while disciplining unsatisfactory practitioners, due to the Public’s dependence on their competence and proper conduct.
Based on the above argument, and earlier discussion of the literature on the impact of personal factors on the VfM audit performance by Roberts and Pollitt (1994) and Morin (2001), it can be inferred that, in order to improve the VfM’s effective performance, the auditors should obtain competence through having relevant experience, technical skills and sufficient knowledge of the audited bodies’ business. These auditors’ personal attributes are important particularly when the auditing context involves professional judgments (Nelson and Tan, 2005).

Several studies highlight the impact of the auditors’ competence on their judgements and the quality of their reports (see for example, Trotman et al., 2009; Brown, 2003; Awadallah, 2006; Johnstone et al., 2002; and Gibbins et al, 2001). Trotman et al. (2009) examined the impact of the auditor’s rank on his/her correction decision with respect to a possible inventory write-down situation. They found that partners with high rank are likely to have sufficient experience and to be more prepared to take a harder stand with their clients than less experienced auditors. This finding is consistent with that of Brown (2003) who considered the effect of engagement risk and experience on the auditors’ concessionary behaviour. Brown found that the auditors responded to a high engagement risk by making greater concessions to the client (i.e. agreeing to a revenue recognition method that is more in line with the client’s aggressive reporting preference). However, highly experienced auditors made fewer concessions than their less experienced colleagues. Similarly, Johnstone et al. (2002) drew a positive correlation between the auditors’ relevant experience and technical skills and their ability to generate financial reporting alternatives when their clients propose aggressive reporting for a complex revenue recognition issue. In terms of providing good quality audit reports Awadallah (2006) ascertained that the auditor’s competence, skilled communication with client
management and having a good reputation as an audit firm, are all features which could enhance the ability of the auditors to resist their clients’ pressure.

2.4.1.2. Interpersonal-level factor

A factor at the interpersonal level which can affect the impact of the VfM audit and hinder its effective performance could include the existence of auditor-client task interdependence between the external auditors and their clients.

The literature suggests that the financial statements are joint products usually produced by the accountants and the auditors and both parties share a legal liability risk (Dodd et al., 1984 and Palmrose, 1991). As a result, a mutual interest may arise between the auditors and the management. This mutual interest might be due to the auditor’s desire to be re-appointed by the client (Simunic, 1984), as well as the client’s wish to minimise the audit fees and, subsequently, use the audit report to attract more investors (DeAngelo, 1988). It seems likely that this mutual interest could make both auditor and client prefer an unqualified audit opinion, since any other result in an accounting environment might result in severe consequences for both parties (Gibbins et al., 2000). This might affect the auditors’ objectivity and statutory power over their clients. Kadous et al. (2003) argued that when auditors are motivated to arrive at a desired conclusion, their objectivity is significantly decreased and they are more likely to arrive at the clients’ preferred method.

Somech and Drach-zahavy (2002) explain how power is gained and lost in reciprocal
influence processes between the source and the target, and their model is highly pertinent to the VfM auditor-client relationship. Somech and Drach-zahavy (2002) argued that social relations commonly entail task interdependence between the parties. A depends upon B if the achievement of A’s task is facilitated by appropriate actions on B’s part. They add that by virtue of mutual dependency, it is more or less imperative for each party to control or influence the other’s conduct. They postulated that, at this point, these ties of mutual dependence imply that each party is in a position, to some degree, to grant or deny, facilitate or hinder the other’s task.

This argument by Somech and Drach-zahavy (2002) is bolstered by Sharma’s (2007) ethnographic study which discusses the processes leading up to, and playing out with, the final phase of the VfM audit process. The study examines the processes of interaction, conflicting role expectations and impressions created between the VfM audit key actors, i.e. the auditors, the audited bodies and the Public Account Committee (PAC) members in the UK Public Sector. Sharma (2007) based her study on the progress achieved after two VfM audits carried out by the NAO. The first study examined the Environment Agency’s regulation of waste (NAO, 2002) and the second evaluated the Government’s Warm Front Scheme aimed at tackling fuel poverty in vulnerable groups (NAO, 2003b). Sharma (2007) expressed concern about the VfM auditor’s independence of the audited bodies. She found that the auditors were reluctant to aggravate the audited bodies since this would strain their future relationship, and which could cause difficulties when they need to work with the audited body again on further studies. These findings are consistent with those of Assiri (1997), who examined the perceptions of the internal auditors and their clients in the UK Private Sector, in order to explore the nature and the consequences of potential role conflicts in the internal audit environment. Assiri indicates a person-role conflict (conflict between the internal auditors’ roles and internal
audit professional standards), which may occur due to the task interdependence between the internal auditors and management members. He finds that internal auditors were reluctant to abide by their professional standards since this might cause them to lose clients.

2.4.1.3. External-level factor

Having discussed the factors at the personal and interpersonal levels, which may hinder the effective performance of the VfM audit, this subsection focuses on the external level. A social factor at the external-level could include the ambiguity surrounding the assessment of the VfM audit factors, i.e. economy, efficiency and effectiveness.

Role ambiguity, as Katz and Kahn (1978) argued, simply means uncertainty about what the occupant of a given position is supposed to do. Peiró and Meliá (2003) have identified the sources of power in organisations (i.e. legitimate, reward, coercive, expert, and referent power), which have been classified by French and Raven (1959), into formal and informal power. Formal power includes legitimacy, reward, and coercion power bases and informal power includes referent and expert power bases. The authors examined the impact of role conflicts and ambiguity on the power of the role-senders (role-set). Based on survey questionnaires, which canvassed superiors, subordinates and peers, they found that role conflict and ambiguity can mitigate the power of the role-set members over the focal-person in an organisation. They add that ambiguity and conflict are correlated with informal power in an organisation.
In the same vein, Nelson et al. (2002) examined managers’ decisions regarding how to attempt earnings management and auditors’ decisions about whether to prevent earnings management by requiring an adjustment of the financial statements. They found that, when accounting rules are based on unambiguous guidance to distinguish between alternative accounting treatments, managers are more likely to rely on structured transactions to meet the precise guidance, thereby minimising the possibility of adjustment required by auditors. But, they are less likely to do so when standards are imprecise and ambiguous. Nelson et al’s (2002) findings, regarding the impact of such ambiguity on auditors’ power over audited bodies’ managements, are consistent with the findings of Johnstone et al., (2002) who carried out a study to examine the auditors’ ability to provide the management in the audited bodies with alternatives when these managements propose an aggressive financial reporting alternative for a complex revenue recognition issue. They found that the auditors are more likely to generate a variety of plausible and less aggressive financial reporting alternatives to prevent their clients from proposing a more aggressive format when the interpretation of generally accepted accounting principles is unambiguous.

To summarise, the review of the literature in this section illustrates the ways in which the VfM audit has been perceived by the VfM auditors and their clients (professionals and Operational Managers). It has emphasised a), the VfM audit’s effective performance in improving accountability and performance of the Public Sector organisations and b), the ways in which factors at the personal, interpersonal and external levels might enhance or hinder its impact on the audited bodies.
The general themes to emerge from the literature in this section are those of clear differences in perception between the VfM auditors and their clients. The main differences are in relation to the ability of the auditors to carry out a good quality audit and provide their clients with practical recommendations to improve performance. In addition, the literature shows differences in perception among the auditors themselves concerning their competence to carry out this type of audit. Some Public Sector auditors are not convinced that they are the most appropriate individuals to carry out an effectiveness audit since it is usually based on a high level of subjectivity. They deem managers and specialists in public departments to be more appropriate individuals for this type of evaluation.

These differences might indicate an audit expectations and perception gap between the two parties, i.e. the auditors and their clients, and even between the perceived roles of Public Sector auditors and their own value and professional standards. These differences might also give rise to role conflicts between the two parties. Such issues, i.e. the audit expectations gap and role conflicts, are discussed in the following two sections.

2.5. Audit expectations gap

A number of attempts at defining the audit expectations gap, illustrating its potential causes and postulated structure, and establishing its composition and constituent parts, have been made by researchers such as Liggio (1974), Cohen Commission (1978), Guy and Sullivan (1988), Humphrey et al. (1992), Monroe and Woodliff (1993), Humphrey (1997), AICPA (1993), Innes et al. (1997), Sikka et al. (1998), McEnroe and Martens
Humphrey (1997) points to a variety of definitions developed for the audit expectations gap. Some have viewed it simply as a role perception gap occurring, in the view of financial statement users, between what can reasonably be expected of the auditors and what the auditors believe should be expected of them. For example, Guy and Sullivan (1988), AICPA (1993) and McEnroe and Martens (2001) have indicated that the audit expectations gap refers to the difference between what the Public and financial statement users believe auditors are responsible for and what auditors themselves believe their responsibilities to be. Sikka et al. (1998) argued that the expectations gap represents the difference between what the Public expects from the auditors and what the auditing profession prefers the audit objectives to be. Innes et al. (1997) proposed a normative and positive approach to analyse the audit expectations gap. They argued that the normative approach considers perceptions of what the auditors should be doing; while the positive approach considers perceptions of what the auditors are actually doing.

Others have broadened the definition of an audit expectations gap to involve the views on the services delivered by the auditors. These scholars emphasise issues such as whether the auditors are performing, or are perceived to be performing the duties that can reasonably be expected of them.

Liggio (1974) initiated the application of the expectations gap notion to auditing and has defined it as the differences in expected performance according to the perspectives of independent accountants and the users of financial statements. The Cohen Commission (1978) added that a gap might exist because of the difference between the expectations and needs of the Public and the reality of that which auditors can, and should reasonably
expect to, accomplish. Humphrey et al. (1992) defined the audit expectations gap as the difference between the clients’ perceptions of the auditor’s role and the auditor’s perception of that role. They argued that such a gap might consistently centre on a number of issues including:

1- The auditor’s role and responsibilities.
2- The nature and meaning of messages conveyed by the audit report.
3- The quality of the audit function.
4- The structure and regulation of the audit profession.

Monroe and Woodliff (1993) assert that an audit expectations gap might also relate to the differences in the interpretation of messages conveyed by the audit reports. They segregated the issues related to the expectations gap into three groups: auditor’s roles and duties, the reliability of audited financial statements, and the prospects of the audited entity. As such, the Public expects the auditors’ responsibilities to involve detecting errors, and possibly assessing management performance, while the auditors believe that their role is that of evaluating the fairness of financial reporting (Eden et al., 2003).

Humphrey (1997) pointed to some potential causes of an audit expectations gap:

1- The audit function is not a unitary phenomenon; it might mean different things to different people, which in turn might lead to differing visions of what can be expected of the auditors.
2- The low visibility of audit work and the uncertainty of what it comprises.
3- The unreasonable expectations of non-auditors about audit work.
4- The major crises (corporate collapse, abuse of power or undetected major fraud) which might lead to new expectations and accountability requirements.

5- The nature of audit assurance, which implies that auditors are likely to be expected to miss material errors and irregularities.

6- The absence of an independent regulatory body.

Porter (1993) argued that the widespread criticism of, and litigation against, auditors indicates that the definition of the audit expectations gap should be extended to include the auditor’s performance and how this is perceived by both auditors and their clients. He criticises Liggio (1974) and the Cohen Commission’s (1978) definitions of the audit expectations-performance gap.

He claims that these definitions are too narrow as they do not consider that the auditors may not accomplish the expected performance, or what they can and reasonably should achieve. He proposes that the gap is more appropriately entitled ‘the audit expectations performance gap’ and should be defined as the gap between the client’s expectationss of auditors and the auditors’ actual performance, as perceived by their clients (1993: 50).

Based on this definition, the gap has two major components, as Porter argues:

1- Reasonableness gap (the gap between what society expects the auditors to achieve and what the auditors can reasonably be expected to accomplish).

2- Performance gap (the gap between what society can reasonably expect the auditors to accomplish and what they are perceived to achieve) (ibid: 50).

Porter conceived that the performance gap could be subdivided into ‘deficient standards’, i.e. the gap between the duties that can reasonably be expected of the auditors
and the auditors’ existing duties, as defined by the law and professional promulgation, and ‘deficient performance’, i.e. the gap between the expected performance standard of the auditors’ existing duties and the auditors’ performance as expected and perceived by the wider society (ibid: 50).

The structure on Audit Expectations-Performance Gap developed by Porter is presented in Figure 1.

**Figure 1: Porter’s Structure of the Audit Expectations -Performance Gap**

Note: 1 Duties defined by law and professional promulgations.

2 Duties compatible with the auditors’ role in society and cost-beneficial for the auditors to perform.

Source: Adapted from Porter (1990:50).
Given the fact that the VfM audit has two main aims, i.e. to maintain confidence in Public Sector spending by evaluating the performance of the Public Sector bodies in terms of whether these bodies are wisely managing public resources, delivering VfM services, and to contribute to improved performance in public bodies by carrying out a thorough examination of these bodies’ performance evidence while providing them with value added recommendations, this study has adopted Porter’s (1993) definition of the audit expectations performance gap. The broad aim is to investigate the existence of an audit expectations performance gap between the VfM auditors and their clients, and to determine whether such a potential gap could be identified as ‘deficient standards’ or ‘deficient performance’. The emphasis will also be on identifying which environmental factors at the personal, interpersonal and external levels can bridge, or widen, such potential gap, and how this is achieved by these factors.

2.5.1. Research on the audit expectations gap.

Several studies have investigated the existence of an audit expectations gap in the UK, the USA, New Zealand, Australia and other countries. The overwhelming conclusion of these studies is that there is an audit expectations gap between the auditors and the users of financial statements. In the UK, Humphrey et al. (1993) provided an empirical study to investigate how auditors and their work were perceived by various groups interested in the financial reporting process. The study is based on a mail questionnaire survey and six case studies to elicit perceptions on the role and nature of auditor responsibilities, to identify what attributes respondents appear to associate with the performance of the auditors and to elicit what action respondents anticipate the auditors to take in particular
circumstances. Significant differences of opinion across the groups were obtained. These
differences concerned issues like: the auditors’ compliance with accepted accounting
practices, the extent of deliberate distortions and the existence of accidental errors in the
financial statements, the auditors’ responsibilities for fraud detection, efficiency
assessment, the auditors’ duties to third parties and the auditors’ assessment of the true
and fair view of a company’s balance sheet. The study shows the auditors’ clients to be
concerned about the auditors’ performance of the issues mentioned above rather than the
auditors themselves. Dewing and Russell’s (2002) survey questionnaire examined, from
the stakeholders’ and fund managers’ perspective, the definition of such an expectations
gap, its constituents, and the extent to which this expectations gap might be narrowed by
audit regulation. The study showed fund managers to be concerned about the scope and
responsibilities of the auditors and concurs that increased regulation offers the potential
to narrow the expectations gap.

Lowe (1994) investigated the audit expectations gap between auditors and judges in the
USA, comparing both parties’ attitudes toward the auditing profession. The study
indicates a large divergence in perceptions between auditors and judges over
expectations of the auditing profession. Epstein and Geiger (1994) measured investor
views regarding the auditors’ responsibilities toward detecting fraud and irregularity.
Surveying a pool of US investors, they discovered that investors expected complete or
absolute assurance that fraud and errors in the financial statements would be detected.
The study then compared the investors’ views with the standards of auditing and
concluded that, with regard to the level of assurance that the auditors should provide for
the detection of errors and irregularity, an audit expectations gap does indeed exist.
Similarly, McEnroe and Martens (2001) also identified an expectations gap in the USA
between auditors and investors on issues such as fraud detection and reporting. They found that investors have higher expectations than the auditors with regard to auditor responsibility for providing assurance on these issues. McEnroe and Martens suggest that the accounting profession should implement appropriate measures to reduce this expectations gap.

In Australia, Low (1980) identified the existence of an expectations gap between auditors and non-auditors regarding their perceptions of problems such as fraud detection. In addition, Monroe and Woodliff (1993, 2009) also examined the existence and nature of the expectations gap in Australia. Based on mail questionnaires, they provided evidence of an audit expectations gap between the auditors and undergraduate commerce students. They also examined the effect of professional education on undergraduate auditing students’ perceptions of the meaning and the messages communicated through audit reports. Their study concluded that education might be an effective instrument to narrow or even eliminate an audit expectations gap. Gramling and Schatzberg (1996) duplicated Monroe and Woodliff’s (1993, 2009) studies and contradict the latter’s hypothesis that education could eliminate an audit expectations gap between commerce students and auditors. Their survey was based on questionnaires which aimed to ascertain whether the perceptions of undergraduate business students about the auditors’ roles and responsibilities would change after completing an audit course. The study compares the perceptions of students subsequent to completion of the course with those of professional auditors. Issues addressed in this survey include: the appropriate role of the auditors, the clients to whom the auditors should be answerable, prohibitions and regulations of the audit, and the decisions that the auditors would likely take in dealing with specific case studies. The study suggests that, although the student
perceptions about some components of the audit process and the auditors’ roles and responsibilities changed after completing the audit course, in many areas significant differences in auditor and student perceptions still exist. The study concluded that education might narrow the audit expectations gap but would not eliminate it.

Likewise, Porter (1993) carried out a quantitative study in New Zealand, involving two groups affected by audit work. The first group consists of a financial community familiar with audit-related work, such as the tasks pertaining to auditors, officers of public companies, financial analysts, and auditing academics. The second group represents the general public, which included lawyers, financial journalists, and members of the general public who might be less familiar with audit work. Porter provided a list of 30 suggested duties of the auditors and asked the respondents three main questions:

1- Is the duty an existing duty of auditors?
2- If the duty is an existing auditors’ duty, how well it is performed?
3- Should the duty be performed by auditors?

The study concluded that five of the thirty suggested duties of the auditors were found to contribute to an audit expectations performance gap. This gap represents the section of society whose expectations with regard to the duty of auditors are not being fulfilled. Seven duties contributed to a deficient performance gap and eight duties demonstrated a deficient standards gap. Ten suggested duties identified a reasonableness gap which results from society’s unreasonable expectations of the auditors. Lisa (2007) updated the literature on the audit expectations gap in New Zealand, surveying a group of auditors and directors to determine the current duties of the auditors as well as which duties to
include in the audit function. The author identified factors such as whether directors have experience or education related to accounting. The study confirmed the existence of audit expectations gaps and educating the users on how they could narrow such gaps.

The audit expectations gap is not a phenomenon exclusive to the USA and Western countries; it is worldwide in scope. Researchers have investigated such a gap in some developing countries. For example, in Malaysia, Fadzly and Ahmad (2004) investigated the existence of an audit expectations gap between the auditors and users of financial statements, including bankers, investors, and stockbrokers. The researchers compared the findings of their survey to the findings of a similar study carried out in Singapore by Best et al. (2001). Fadzly and Ahmad’s (2004) survey addresses aspects such as the responsibilities of the auditors, the extent of assurance and the usefulness of audited financial statements, and purports to assess user perceptions of the auditors’ roles and responsibilities. The study also aimed to find an alternative way of educating the users of auditing reports through voluntary reading of audit materials.

Consistent with the findings of Best et al. (2001), Fadzly and Ahmad’s (2004) study provides substantial evidence to confirm the existence of an audit expectations gap in Malaysia, particularly surrounding issues concerning the auditors’ responsibilities about fraud detection and prevention, preparing financial statements and accounting records, and internal control. Their evidence also demonstrates a gap with respect to defining the auditor’s legal responsibilities and culpability in the case of business failure due to fraud. These two issues were not addressed in Best et al.’s (2001) study. There is also a noticeable disagreement among brokers and investors with regard to the extent of assurance in the financial statements, which might indicate a lack of confidence in the
statements for evaluating investment purposes. The study concludes that, although the gap in Malaysia could be wider than the gap in Singapore, the Malaysian users of financial statements still believe that audit reports are trustworthy. With regard to the effectiveness of reading auditing material to improve the users’ knowledge about auditor responsibilities, the study revealed that signs of a gap were fewer among investors to whom reading material was given.

In Bangladesh, Siddiqui and Nasreen (2004) surveyed professional accountants and university accounting students, choosing the latter informants as a knowledgeable representative group from the wider society. The authors examined the auditors’ responsibilities and the reliability and usefulness of their decisions on audited financial statements. They found an audit expectations gap in all of the aspects examined in their study, with the widest differences between the two groups occurring in the area of auditor responsibilities.

Lee et al. (2007) updated the literature on the audit expectations gap in Malaysia by considering the existence of an audit expectations gap between the auditors, auditees and audit beneficiaries in relation to the auditors’ duties. The study confirmed the existence of such a gap and showed that the auditees and audit beneficiaries have higher expectations than the auditors in regard to auditor duties.

In a similar context, Dixon et al. (2006) investigated audit expectations gaps between auditors and financial statement users in Egypt. Based on a mail questionnaire, their study provided evidence of widely differing perceptions among the two parties on issues such as the auditors’ responsibilities for fraud prevention, maintenance of accounting
records, and auditor judgement in the selection of audit procedures. To a lesser extent, the study identified an audit expectations gap concerning the reliability of audited financial statements and the usefulness of audit per se.

Likewise, Sidani and Slayan (2007) investigated the audit expectations gap in Lebanon. Comparing auditors’ and financial statements users’ understanding of the audit profession, the study indicated an audit expectations gap about the auditor’s responsibilities pertaining to fraud detection. Another expectations gap emerges relating to how the auditors act, and what they perceive themselves doing compared to what the financial statements users expect them to do. This gap exists due to the absence of an active professional regulatory body which would clarify the duties that are supposed to be fulfilled by the auditors.

Furthermore, Mahadevaswamy and Salehi (2008) carried out a comparative study to investigate audit expectations gap in India and Iran. They found similarities and differences in audit expectations gaps relating to the responsibilities between the auditors and investors in India and Iran. Based on questionnaires, the study revealed the existence of wide audit expectations gaps, in relation to the auditors’ responsibilities, in both countries. The study also revealed that the auditors and investors in both countries have almost the same perspective in regard to the auditors’ responsibilities.

Dealing with the topic of whether an audit expectations gaps exists in a Public Sector audit, Chowdhury et al. (2005) conducted a survey which examined the existence of an audit perceptions performance gap in the Public Sector of Bangladesh. They examined the perceptions of the Comptroller and Auditor General’s (CAG) auditors and two
groups of users of the CAG reports, i.e., members from the Public Account Committee (PAC) of Parliament who examine the CAG audit reports and members from the International Funding Agencies (IFAs) providing external funds in Bangladeshi public bodies. Chowdhury and his colleagues examined these three groups’ perceptions of the following audit concepts: auditor independence, auditor competence, and audit materiality, audit evidence, true and fair view and performance audit. Their research revealed significant differences in perceptions between the CAG auditors and both user groups, namely the members of the PAC and the IFA members. The study confirmed the existence of an audit expectations gap concerning the concepts mentioned above.

Overall, the main theme to emerge from the literature reviewed is that of an undeniable audit expectations gap between the auditors and the users of financial statements with regard to the duties and responsibilities expected to be fulfilled by the auditors, and the actual performance of these duties and responsibilities. In addition, it is apparent that the present tendency of research on audit expectations gaps has been quantitative in nature and focused on investigating such gaps in the Private Sector.

Given the fact that: a) the VfM audit has begun to be used, not only as a means to carry out a financial audit, but as a powerful tool with which managers, politicians, regulators and consultants can reform Public Sector bodies in order to improve performance and accountability (Power, 1994); b) the similarity across private and Public Sectors of the audit’s broad aim (McCrae and Vada, 1997); and c) the literature still lacking empirical research on the practice of the VfM audit and its impact on the audited bodies (Glynn, 1985; Guthrie and Parker, 1999; Powerman et al, 2000; Chowdhury et al., 2005), there is a clear need to conduct a qualitative study examining auditor and client perceptions of the impact of the VfM audits on public bodies’ performance. This is likely to help in
identifying potential perception gaps between the two parties, i.e., the VfM auditors and their clients, and whether the VfM audit has made a real change in the way public bodies manage the taxpayers’ money. This is also likely to identify which factors in the VfM audit environment could influence any potential gap and how they could exert such influence.

The following section reviews the literature on potential role conflicts that might occur between the VfM auditors and their clients.

2.6. Role Conflicts

Public Sector auditors’ clients’ perceptions and expectations are indicators of what Public Sector auditors should and should not do. Since the introduction of the VfM audit in the late 1970s, and particularly after the Local Government Finance Act in 1982 and the National Audit Act in 1983, which granted the Comptroller and Auditor General remit to carry out examinations into the economy, efficiency and effectiveness (3Es) of the use of public resources by public organisations, the performance of Public Sector auditors has been measured through the appropriate assessment of these three elements. However, the assessment of some of these elements might conflict with the assessment of others. For example, Morin (2001: 104) found that some of the audited organisations rejected the recommendations formulated by the auditors mainly because the recommendations aiming to improve efficiency would prevent these organisations from achieving their objectives (effectiveness) or vice versa.
Morin (2003) argued that, controlling performance and improving it are two important objectives of the Public Sector audit. Controlling performance in order to inform the Government is essential for the administration in public organisations, but it also fulfils an important function of encouraging change and improvement in public administration. Morin also argued that audit has always been linked to control and has gained its credibility through the objectivity, independence and professional competence of the auditors and their ability to assess the information provided by the management in order to assure the shareholders, creditors and the general public of the ability of public management to provide objective information. When the auditors are required to carry out VfM audits to improve performance, their background and prior experience, he argues, strongly influences their approach to their role as controllers and may likely cause a conflict between these two roles. The culture of the VfM auditors, as argued by Nobles et al. (1993), is likely to be influenced by that of the financial statements audit, since most of the auditors began their careers auditing financial statements. They add that this financial audit background is more likely to influence the auditors’ assessments of effectiveness. This is supported by Lapsley and Pong (2000) who argued that the VfM auditors, and the studies they carry out, are firmly within the provenance of accountants and auditors. Consequently, difficulties have been identified whereby the VfM auditors have a focus on quantification, in general, but particularly on cost savings, while other professional groups identified with values that were not captured by monetary values.

Pollitt et al. (1999, p. 108) pointed to the continuous tension inherent in the Public Sector auditors’ role as a result of pressure to move more toward helping public administrations to improve their performance through providing them with recommendations, judging and reporting on their performance. Pollitt and his colleagues assessed that the auditors
cannot fulfil all these roles simultaneously or, at least, they cannot do all of them well.

The requirements for the external auditors’ independence, scope and objectivity in the UK Public Sector according to the Public Audit Forum’s (PAF) of 1997, can be summarised as follows: “Public audit must be independent of the organisations being audited so that the auditors cannot be improperly influenced by those work they audit and so that they can carry out their role freely” (no page number in original). External Public Sector auditors are not only required to provide an opinion on the financial statements (including statements of internal financial control) prepared by public bodies, but also to report on issues such as regularity, propriety and value for money (Public Audit Forum, 1998b).

The activities of helping, judging or reporting are likely to conflict with each other, and for a single Public Sector auditor to perform all these activities his/her audit independence and objectivity will be impaired. Gatzels and Guba (1954) showed that role conflicts occur when a position occupant is required simultaneously to fill two or more roles which present inconsistent, contradictory, or even mutually exclusive expectations. The occupant of a position cannot realistically conform to these expectations and might adopt one of several alternatives. He/she may abandon one role and adhere to the other, might attempt some compromise between the roles, or he/she might withdraw, either physically or psychologically, from the roles.

Ford et al. (1975) stated that an objective measure of role conflict would require:

1- The identification of all members of the various role sets of each role incumbent.
2- The determination of each role sender’s expectations of the focal role incumbent’s
3- An analysis of inconsistencies or ambiguity in role expectations.

Since the audit of VfM became a statutory requirement of external auditors in the UK Public Sector, external auditors have had a wide range of roles. They have to focus on issues far beyond the traditional financial audit (report on financial statements) to cover issues such as economy, efficiency and effectiveness of the use of the tax payers’ money by public bodies. This might cause an overload in the external auditors’ duties, particularly if they lack the skills and qualifications required when evaluating the effectiveness of the use of public resources by professionals like doctors, nurses or educationalists. Biddle (1986) found that the concept of “role overload” means that the occupant of a position is being faced with too many expectations and there is too much to do. For example, Pendlebury and Shreim (1990), express concern with regard to the potential difficulties and conflict which the external auditors in the Public Sector might encounter in carrying out the evaluation of effectiveness, commented:

“The effectiveness of many public services is, of course, notoriously difficult to determine. Objectives are often imprecise and ambiguous, and even if they were not, their achievement will frequently be impossible to measure. Under such circumstances the evaluation of effectiveness is an inherently subjective process and the appropriateness of involving auditors has always been a matter for concern (1990: 177)”.

Katz and Kahn (1978) argued that conflicts might occur as a result of a disagreement between two or more role-senders’ expectations about a focal person’s role, and also as a result of a disagreement between members of the role-set expectations and a focal

performance.
person’s expectations for himself or herself. For example, Lapsley and Pong (2000) highlighted differences in perception (regarding VfM studies) between financial professionals (auditors and accountants) and other professionals, such as solicitors and educationalists. These differences of perceptions might cause a conflict between the two parties.

Public Sector auditors are members of the professional bodies (NAO, AC and Private accounting firms) and are expected to abide by professional and ethical standards of that profession, applying the roles defined by these bodies. However, Public Sector auditors have their own professional standards and values, which might be in conflict with the roles they are applying, particularly if they have reservations about these roles.

Pendlebury and Shereim (1990) indicated a disparity of views between the three groups of auditors with regard to effectiveness auditing. They found that the NAO auditors deemed themselves the most appropriate group in evaluating effectiveness, while the auditors from AC and private accounting firms saw themselves somewhat differently. This group was prepared to concede that specialists and managers in the services department were more appropriate than themselves to evaluate effectiveness. Roberts and Pollit (1994) argued that Public Sector auditors claim to be evaluating effectiveness when they carry out a VfM study but they are, in practical terms, emphasising economy and efficiency as they gravitate towards certain evaluation designs.

Based on this argument and Katz and Kahn’s (1978) analyses, different forms of role conflicts might be identified:
1- Conflict between the VfM auditors’ roles and their professional standards and values (person-role conflict).

2- Conflicts between external Public Sector auditors’ capabilities and their roles (role overload).

3- Conflicts between the VfM auditors and their clients (inter-sender conflict).

To summarise, the literature reviewed in this section has highlighted significant differences of perception between Public Sector auditors and their clients regarding the VfM audit. These differences are likely to indicate an audit expectations gap which gives rise to role conflicts between the two parties. The literature on audit expectations gaps has supported the notion that there is indeed a significant audit expectations gap between what the auditors actually do, or perceive themselves to be doing, and the perceptions of the users of the financial statements. The gap occurs in aspects such as: the auditors’ roles and responsibilities, the nature of the audit function, the perceived performance of the auditor roles in relation to fraud detection and their duties to third parties, the extent of assurance and the usefulness of the audited financial statements. However, the literature on the audit expectations gap was exclusively based on the Private Sector audit perspective and has noticeably ignored the Public Sector.

In addition, the literature has focused on identifying the existence of an audit expectations gap and role conflicts and is trying to narrow, or eliminate, such a gap in order to avoid role conflicts. However the literature has not considered the interplay of social factors in the audit environment which might affect the expectations of the auditors and their clients.
Role expectations are not static and have to be adjusted through the process of negotiation and mutual influence, reflecting the preferences of the auditors and their clients in the course of their interactions (Katz and Kahn, 1978), and the auditors sometimes play an active role in shaping these expectations (Nelson et al. 2002). These processes do not occur in isolation however, they are likely to be influenced by the interplay of social factors in the audit environment. Therefore, it is important to examine the impact of these social contextual factors on auditor and their client expectations of a VfM audit.

2.7. Summary of the literature review.

This section summarises the main themes to have emerged from the literature review. It also summarises the gaps that have been identified in the literature:

1- The UK Government has adopted the NPM reform in order to improve accountability and performance in Public Sector institutions. This means the adoption of Private Sector management concepts and styles to the Public Sector

2- As a result of the reform, public organisations are being fragmented due to the advent of new forms of network and sets of relations. This makes accountability and auditing fulfilment more difficult as the traditional accountability and auditing roles are no longer workable.

3- There is greater emphasis on managerial accountability where front-line professionals and Operational Managers are becoming increasingly accountable for the use of Public resources as they are working in the front line.
4- The scope of Public Sector audit has expanded as a result of the NPM 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 to measuring management performance and reporting on issues such as economy, efficiency and effectiveness of the acquisition and allocation of resources for the purposes intended.

5- There is an indication of clear differences in perception between the VfM auditors themselves and between them and their clients (professionals and Operational Managers) about the capability of the auditors to carry out a balanced assessment of the three VfM audit elements, i.e. economy, efficiency and effectiveness and then provide their clients with value added recommendations. Some of the external Public Sector auditors perceived their VFM reports as valuable and positive as they might 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.

6- Audited organisations perceive the 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.

7- These differences in perceptions, which have been mentioned above between the UK Public Sector auditors themselves and between them and their clients indicate to a potential audit expectations gap and role conflict in the VfM audit environment.

8- The literature reviewed here on the audit expectations gap has centred on the Private Sector audit perspective and ignored the Public Sector audit. As the broad auditing aim is similar for both sectors, it is important to investigate a possible audit
Chapter Two: Historical Development and Literature Review

expectations gap in the Public Sector.

9- The studies reviewed are not comprehensive, since they investigate the existence of audit expectations gaps without examining the impact of social factors at the personal, interpersonal and external levels on such gaps and the ways in which such factors might narrow or widen any potential gaps.

10- The studies also investigate a gap between the views of auditors and users of the financial statements, but the same studies dismiss the audited organisation’s perspective. These people (in audited organisations) are usually involved directly in the auditing processes and might undermine these processes by not co-operating with the professional auditors, therefore, it is important to take these people’s views into consideration in order to narrow such a potential gap and to avoid potential role conflicts between the two parties.

11- The literature on the audit expectations gap, which has been reviewed was quantitative in nature, did not yield any deep insight into the phenomenon of the audit expectations gap. Instead, they emphasised on investigating simple gaps by using questionnaire methods to collect numerical data. For example, gathering quantitative data to determine the impact on the Public of attending an auditing course or reading specific audit publications as a means to alter their perceptions about what the auditors’ role should be. The positivist researchers’ use of economic models ignores what is actually happening in the real world of the Public Sector audit. As a result of such ignorance, these researchers could not discover new and important sources of knowledge about the external VfM auditors’ and the clients’ expectations of the VfM auditors’ roles, how both parties perceive the utility of the VfM audit in improving performance in the UK Public Sector, why a gap in expectations or perceptions exists and how it consequently affects the performance
of auditing in terms of its impact on the audited bodies. Within accounting research there is a growing interest into the use of qualitative research as a means of overcoming some of quantitative research’s perceived limitations.

2.7.1. **Role theory as a theoretical perspective for this research.**

Role theory is concerned with the processes of social interactions and communications that take place between members within and without organisations. The core of these social interactions and communications is the processes of role-taking between role-senders and members of their role-set. These processes consist of dimensions such as role expectations, sent role, received role and role behaviour, and the impact of social factors in the environment on these processes. Hence, to investigate the audit expectations gap between the VfM auditors and the clients (professionals and Operational Managers in the public bodies), to provide a deeper insight into the impact of the VfM audit on the audited bodies, from the perspective of these actors, and to develop an understanding of the impact of factors at the macro, micro and personal levels on the effective performance of the VfM auditing, the process of role-taking, suggested by Katz and Kahn (1978), has been adopted as a theoretical framework.

Role theory is relevant as a theoretical framework for this research for the following reasons:

1- The Value for Money audit has been created to achieve certain objectives. These objectives are achieved through roles performed by the external VfM auditors. These roles have established relationships between the external VfM auditors and their clients.
in the public bodies.

2- The external VfM auditors’ roles are formed through an evolving, interactive, dynamic process of negotiation, which occurs during interaction and communications and reflects the preferences of the external VfM auditors as well as those of their clients.

3- Katz and Kahn refer to role conflicts, expectations, perceptions and conformity as important elements of role formulation.

4- The external VfM auditors are not completely independent of their clients and these clients have a stake in their performance.

5- The external VfM auditors’ roles, with regard to the VfM audit, are constrained to some extent by the expectations, perceptions and demands of their clients.

More justifications of the use of the process of role-taking as a theoretical framework for this study will be outlined in the next Chapter on Theoretical Perspective.
3. Chapter Three: Theoretical perspective

3.1. Introduction

The previous chapter shows that the process of VfM auditing implies an interactive and dynamic negotiation process between the external VfM auditors and the clients preceding the issuance of the audit reports. Hence, in order to investigate audit expectations and perception gaps in the VfM audit environment, identify potential auditor role conflicts, as well as determine which factors can influence auditor-client interactions, and how such influence is achieved, the process of role-taking model, based on Katz and Kahn’s (1978) role theory has been adopted as a theoretical perspective for this study. Most of the studies discussed in this chapter are quite old, however they remain highly pertinent to the topic, since more recent research on role theory and its application is still heavily reliant on these foundational works.

Katz and Kahn (1978) suggested that, since the units of an organisation are not linked physically, they must be linked psychologically. The process of role-taking is thus directly concerned with the social interactions and communications taking place between individuals in organisations. In addition, it describes and accounts for the psychological stress experienced by them as well as outlining and interpreting the ways in which organisational, personal and interpersonal factors influence these social interactions and communications. As depicted by Katz and Kahn, Figure 2, p105, shows that the core of the process of role-taking is the role episode. Most of the research issues investigated here are interpreted within the process of the role-taking model based on Katz and
Kahn’s (1978) role theory. For the purposes of this study, these issues include: i) ‘relationship’, which refers to the connection between role senders (the external VfM auditors) and the focal person (professionals and Operational Managers) and ii), the perceptions and expectations of these actors about the VfM audit performance in terms of improving the Public bodies’ performance.

Moreover, the idea of the role as a set of expected activities associated with the occupancy of a given position in an organisation presupposes a substantial agreement among the relevant members of that organisation as to the nature of those activities. Thus, perhaps any discrepancies in such an agreement could signify an expectations gap between those members (Katz and Kahn, 1978). Katz and Kahn added that role conflicts are typically seen as a disagreement between two or more role-senders, but they also point out that two or more expectations of the same role-sender may be in conflict, and conflict can occur between the expectations held by the role-set and those held by the focal person for himself or herself. Moreover, conflicts might be correlated with unsatisfactory work group relationships and less confidence in the organisation. Antón’s (2008) study shows a causal relationship between increased role conflicts and stress on workers and their decreased performances, which may result in those workers leaving the organisation. Similarly, Grayson (2007) uses the role theory as a theoretical framework, providing evidence that a conflict between a friendship and a business relationship might have a negative impact on business outcomes. The application of role theory may prove useful in exploring any correlation between potential role conflicts among the VfM auditors, while decreasing their ability to influence the clients and improving the VfM audit’s effective performance.
Katz and Kahn (1978) also added that, when we observe an organisation in motion, its systemic nature is immediately visible. One has only to look beyond the building and ground, and the individuals present, to see that what are literally organised are acts - people acting on materials, acting on machines, but above all interacting with each other (p.188). They added that, in any organisation, each individual could be located within the total set of ongoing relationships and behaviour comprising that organisation. Hence, during the process of the VfM audit, the external auditors are likely to be located within the total set of ongoing relationships with managing directors, operating managers, or other professionals in the audited bodies. As the role theory presumes, the external auditors could be referred to as members of the role set for the professionals and Operational Managers.

Fondas and Stewart (1990) pointed out that the substantial evidence, supporting a description of management as interaction and communication with a network of other people, suggests the appropriateness of the framework and concepts provided by role theory. They added that the role theory concept is a valuable way to classify job holders and their interactions with others. Brookes et al. (2007) used role theory as a theoretical framework with which to examine nurses’ perceptions of their roles in contemporary health care systems. They found that nurses’ perceptions of their role are influenced by social factors, Government policies and trends in professional issues. The authors suggested that role theory is an appropriate conceptual framework with which to define social behaviour and its perception by external observers. Hughes (2001) also used role theory to analyse the expectations of occupational therapists in mental health teams alongside the expectations of members of their role-set, i.e. their employer, the purchasers of mental health services, the client group and the wider health care
community. The authors theorised as to why members of the occupational mental health team may experience conflict and pressure from their role-set to conform to the latter’s expectations. In addition, Butterfield et al. (2004) found the use of role-set analysis to be helpful in exploring from the perspective of police sergeants and members of their role-set, i.e. constables, inspectors and members of senior management in the Police Service, as well as in considering the implementation of individual performance managements in the context of the New Public Management (NPM) reform. The authors identified role conflicts and stress and work overload that the sergeants may experience as a result of being expected, simultaneously, to take a key role in operational policing, and also to supervise and manage.

The remainder of this chapter deals with the process of role-taking based on Katz and Kahn’s (1978) role theory model. This theoretical perspective explicates the mutual expectations of the VfM auditors and their clients, their perception of the usefulness of the VfM audit in improving accountability and the delivery of VfM services in UK Public Sector bodies, and the ways in which social factors in the VfM audit environment could enhance or mitigate the influence the VfM auditors on their clients, or vice versa. Accordingly this chapter is organised as follows:

- Role-taking concept,
- Role-taking model,
- Role-taking in the context of the VfM audit in the UK Public Sector.
3.2. Role-taking concept

‘Role’, ‘role sender’, ‘expectations’ and ‘role conflict’ are all terms used in this study. Prior to considering the appropriateness of the role-taking process model as a theoretical framework in this study, it is necessary to define these terms.

3.2.1. Role

Roles occur in everyday life, as Biddle (1979) pointed out, and can be understood as the behavioural expectations ascribed to, or inherent in, a position in an organisational social system. Biddle added that roles are likely to have characteristic effects, or functions, within the social system, arguing that role is a function taken or assumed by the occupant of a given position, and adds that role is any position differentiated in terms of a given social position, whether the position is institutionalised or not. These roles consist of obligations, rights, and expected performances of the individuals who are acting them out.

Parsons (1951) defined role as what the occupant of a given position does, and what he or she does in his or her relations with others. Smith and Peterson (1988) defined the term ‘role’ as the “expectations about the individual behaviour which are received from various sources within a social structure” (1988: 73). VanSel et al. (1981) added that, within an organisational context, the term role could be defined as a set of expectations applied to the occupant of a particular position by the occupant and by members of his or her role-set within and outside the boundaries of an organisation. ‘Role’, according to
these scholars, means the way in which the occupant of a given position actually behaves as well as the expectations governing the relationship between individuals occupying particular positions.

Katz and Kahn define role as ‘the summation of the requirements with which the system confronts the individuals members’ (1978: 186). Lauer and Handel (1977) distinguished between ‘role’ and ‘status’. They argued that ‘status’ simply consists of a collection of right and duties, while ‘role’ represents the dynamic aspect of status. In other words, when individuals affect the rights and duties attached to a particular status, they are performing the role. Therefore, ‘role’ and ‘status’ are inseparable concepts. For example, ‘student’ is a status, whilst ‘attending class’, ‘studying’ or ‘sitting exams’ are all part of the role. ‘Physician’ is a status, while the ‘diagnosing illness’ and ‘treating patients’ are parts of the role.

3.2.2. Role senders

The term ‘role-senders’ refers collectively to different individuals with whom the occupant of a given position has dealings. These individuals, who are also referred to as the role-set, hold expectations about, and have a stake in, the manager’s performance. The expectations of the members of the role set with regard to what a manager should do or avoid doing do not remain in their mind, but are communicated through their interaction and communication with their actual manager (Merton, 1957). Katz and Kahn (1978) stated that in any organisation each individual member could be located in the total set of ongoing relationships with other members; these actors are his or her role
senders. Van Sel et al. (1981) asserted that role senders could include the supervisor of a focal person, their clients, co-workers, or subordinates. The concept of role senders provides a unique network perspective through which to view the focal person’s roles. A network is described from the manager’s perspective with the emphasis on the manager’s purposes and actions in developing and relating to the network. In the context of this study, the external VfM auditors act as members of their clients’ (professionals and operational managers) role senders.

3.2.3. Role expectations.

The term ‘expectations’ is defined as a ‘statement that expresses by reaction about a characteristic of one or more persons’ (Biddle 1979). Jackson (1972) pointed out that people expect appropriate behaviour from the holder of a particular position. Roles are the sum of these expectations. Fondas and Stewart (1994) explained that managers face an environment characterised by a role set which holds expectations and preferences about appropriate behaviour, signals to communicate these expectations, and reacts to the manager’s behaviour with rewards and punishments. The role set’s expectations elicit the manager’s actual behaviour. Lendzy and Aronson (1985) added that role expectations are comprised of the rights and privileges, the duties and obligations, of any occupant of a social position in relation to persons occupying other positions in the social structure. Katz and Kahn explained that role expectations exist in the minds of members of the position occupant’s role set and represent standards by which they evaluate his or her performance. The expectations do not merely remain in the minds of members of the role set; it is highly likely that they will be communicated in many ways,
sometimes as direct instructions, as in the case of a supervisor describing to a subordinate the requirements of his or her job.

Biddle identified three stages in which role expectations could be extended into real-life situations. The first stage appears in the form of written rules to be obeyed by a position occupier. For example, laws are enacted by legislatures and are interpreted by courts. The second stage takes place when someone uses spoken injunctions as a form of behaviour. For example, parents enunciate rules in order to be obeyed by their children. The third stage plants the concept of expectations in a position occupier’s mind, as in the case where a person does things, presumably, because he or she has internalised standards for behaviour and no longer needs the guidance of an external control system. A journeyman carpenter for example, could build a solid and attractive cabinet, relying on his or her own internalised standards, without written instructions or injunctions spoken by others.

Katz and Kahn (1978) pointed out that all members of a person’s role set depend upon that individual’s performance in some fashion; they are rewarded by it, judged in terms of it, or require it in order to perform their own tasks. Because they have a stake in the performance of that person, they develop beliefs and attitudes about what he or she should do or avoid doing as part of his or her role. The prescriptions and proscriptions held by members of a role set designate role expectations; in the aggregate they define the role and the expected behaviour of the role holder. The role expectations held for a certain person occupying a position by a member of his role set will reflect that member’s perception of that person’s roles and his ability to perform them. Roles expectations are not necessarily restricted to the job description established by the head
of the organisation or prepared by some specialist in personnel, although these individuals are likely to be influential members of the role sets of many persons in the organisation.

Salaman (1979) ascertained that, within role theory, members of an organisation are seen as being composed of interdependent positions and interlocking behaviour. The occupants of these positions are exposed to the perceptions, expectations and social pressures of other organisational members with whom they are interdependent. Meanwhile, Fondas and Stewart (1994) revealed that task interdependence exists when the focal person and the role set are dependent upon the work of each other for successful performance of the jobs. Collins (1982) pointed out that organisations are seen by role theorists as a system of mutual social constraints which the activities of any given position occupant are importantly determined and constrained by the demand and expectations of a position occupant’s role set.

Pfeffer and Salancik’s (1975) research on leadership showed that role behaviour is determined by constraints deriving from a supervisor’s interaction and communication with his or her role set. In particular, peer and supervisor expectations constrain managers’ behaviour towards their subordinates. Pfeffer and Salancik argued that the focal person’s compliance with the expectations and preferences of members of the role set is likely, in part, to be a function of the relative power and influence of the various members. For example, a manager is more likely to conform to the expectations of his or her boss than to those of his subordinates because the boss has the authority to terminate his employment.
In this study, role expectations from the external VfM auditors and the clients (professionals and Operational Managers) consist mainly of preferences with respect to what each party should or should not do to improve performance (the delivery of VfM services) in UK Public Sector organisations. For example, the auditors may have preferences, based on their statutory roles and professional experience, of the way public resources should be managed by their clients. Clients may also have expectations of the VfM auditors regarding their assessment of VfM audit factors, i.e. economy, efficiency and effectiveness, whether their assessment is coherent and balanced and whether their recommendations are relevant, practical and applicable. This means that both parties are not independent and have expectations of one another. For example, in the UK Public Sector, the VfM audit is a statutory requirement with which public bodies must comply. This gives the VfM auditors some sort of statutory power over their clients. However, client cooperation with the VfM auditors is of crucial importance in order for the auditors’ mission to succeed. These expectations and task interdependence are likely to shape the process of role-taking (role expectations, role sending, role perceptions and role reacting) that take place between the VfM auditors and their clients.

3.3. Role-taking model.

This section presents Katz and Kahn’s role-taking model in more detail. The subsequent section applies this model to the context of the VfM audit. Figure 2, on the following page, demonstrates how the interaction and communication process occurs between members in an organisational context. The model highlights the reciprocity inherent in social interaction and emphasises that the position occupant’s (focal person) behaviour is
substantially influenced by his or her social environment, specifically preferences and expectations held by the role senders (role set) who comprise that environment (Fondas and Stewart, 1994).

Figure 2 shows that the process of role-taking consists of two stages of interaction and communication between the focal person, who occupies a given position in an organisation, and his or her role-set. In the first stage, the role-set develops expectations, namely, preferences for the focal person’s actions. These expectations are based on an organisation’s rules and regulations. Having developed expectations, role-senders then communicate these to the focal person in an attempt to influence his or her behaviour. Based on the focal person’s perceptions, and his or her reaction to the communicated expectations, the second stage of the process of role-taking will start.

**Figure 2: The process of role-taking provided in the Role Theory.**

Source: Adapted from Katz and Kahn (1978:196).
In this second stage, role-senders have expectations of the focal-person's actions. They also have perceptions of what he or she is actually doing. They correlate both these factors and exert pressure to influence the focal-person to make a real change in behaviour to conform to role-set expectations. Katz and Kahn (1978) identified three factors, i.e. organisational, personal and interpersonal, which may influence the focal person's responses to role-set judgements.

Organisational factors refer to organisational structure, the technology of the organisation, its formal policies, rewards and disciplinary actions. Personal factors refer to those attributes inherent in the focal person which influence his or her propensity to behave in certain ways, such as their motives and values, defensive preferences, sensitivities and fears. Finally, interpersonal factors refer to the quality of the relationships existing between the focal person and his or her role-set (Wickham and Parker 2007; Stone-Romero et al. 2003).

3.4. The process of role-taking in the context of the VfM audit

The previous section showed that the process of role-taking consists of social actions and interactions between the focal person and members of the role set. It has also shown that this process is influenced by social environmental factors.

From such a perspective, a VfM audit is created to achieve particular goals, i.e. to improve accountability and performance through delivering VfM services, and such goals are achieved through roles performed by the VfM auditors. These roles establish
particular relationships between auditors and clients (professionals and Operational Managers). This study refers to the professionals and Operational Managers in Public Sector bodies as focal person(s) and to the VfM auditors as members of the focal person’s role set.

In addition, it is suggested that the process of the VfM audit implies an interaction and communication between the auditors and their clients. This process constitutes an attempt by the auditors to influence their clients, both to make real change in the way they manage public resources, and to improve performance (Morin 2001).

Based on Katz and Kahn’s role-taking model, the process of the VfM audit could be conceptualised as consisting of two stages of auditor-client interaction and communication. In the first stage, the auditors develop expectations and preferences about what their clients should do or avoid doing to deliver VfM services. These expectations are initiated mainly from roles provided by the VfM audit regulatory bodies (e.g. Audit Commission, the Audit Office and the Public Audit Forum). They also emanate from the auditors’ professional experiences of a VfM audit. Having developed expectations, the VfM auditors then communicate their expectations and preferences to their clients in an attempt to influence the way in which the taxpayers’ money is managed. These communications might take the form of recommendations suggested by the VfM auditors and intended for either complete or partial implementation by their clients. Based on the client perceptions and reactions to the communicated expectations, the second stage of the process of role-taking will begin.

In this second stage, the VfM auditors have clear expectations of how public resources
should be managed by their clients. They also have perceptions of what their clients are actually doing in terms of implementing their recommendations. They correlate both these factors and exert pressure to influence their clients to make a real change in the way they manage public resources and to conform to auditor expectations and recommendations.

However, it must be remembered that clients also have expectations of the VfM auditors. These expectations might be about the auditors’ assessment of VfM factors (economy, efficiency and effectiveness), the adequacy of their assessment, the practicality and relevance of their recommendations or the usefulness of the whole VfM audit process in improving performance in their institutions. Hence, it seems likely that the clients are not always passive recipients of auditor expectations. Instead, they might try to modify these expectations through a process of negotiation with their auditors to bring about conformity and between the two parties’ expectations (Stone-Romero et al., 2003). These processes of negotiation are more likely to narrow, or even eliminate, a potential audit expectations and perception gap between the external VfM auditors and their clients. These negotiation processes are influenced by the interplay of social factors at the personal (the VfM auditors’ competence based on their relevant skills, experience and knowledge of the Public bodies’ activities), interpersonal (task interdependence between the external VfM auditors and the clients) and external levels (the ambiguity of the VfM audit process), in the VfM audit environment. The influence of these factors on the process of role-taking between the external VfM auditors and their clients are discussed in chapter six, in the context of the contributions that this study makes to Katz and Kahn’s (1978) role-taking model.
Role conflicts form another element of role theory, which may also help in identifying potential role conflicts in the VfM audit environment. For the context of this Thesis it has been conceptualised that both the VfM auditors and their clients have expectations and preferences in regard to one another. These expectations may have a significant impact on the VfM audit, since an audit expectations gap is likely to exist and give rise to role conflicts. Katz and Kahn argued that role conflict is likely to occur as a consequence of disagreement between two or more role-senders, between two or more expectations of the same role-sender, or between expectations of the role-set and those of the focal person for himself or herself. Conflict may also be generated between two or more roles held by the same person. In the context of the VfM audit, Morin (2003) posits that controlling performance and improving it are two important objectives of the VfM auditors, but these objectives might conflict with each other. Morin argued that, if auditors involve themselves in helping the audited bodies to improve performance, this might risk their ability to maintain full and transparent control, or accountability, to the wider Public. Morin also found that recommendations aiming to improve efficiency might prevent the achievement of effective objectives. This is because, efficiency means increasing the outputs for the same amount of resources used, while effectiveness means improving the quality of these outputs.

Role theory has identified three types of conflicts, which might apply to VfM audit situations, these conflicts are:

- Conflict between the VfM auditors’ roles and their own values and standards (person-role conflict).
- Conflict between the VfM auditors’ capabilities and their role requirements (role overload).
• Conflict between the VfM auditors and their clients (inter-sender conflict).

3.5. Conclusion

This chapter has explored the appropriateness of the role-taking model based on Katz and Kahn’s (1978) role theory to the project of exploring the issues surrounding the VfM audit in the UK Public Sector. The broad conclusion is that, applying Katz and Kahn’s role-taking model as a theoretical framework for this research will result in a richer and more meaningful research, while allowing a better understanding from those actors directly involved of the nature of VfM audit practices in the UK Public Sector. It might also help to investigate the audit expectations gap and identify potential role conflicts in the VfM audit environment. In addition, it might be useful to demonstrate how the interplay of social factors may enhance or hinder the impact of the VfM auditors and the effective performance of the VfM audit in improving performance in the UK Public Sector. Moreover, adopting the role-taking model as a theoretical framework in this study may identify the extent to which the VfM auditors’ expectations and recommendations are accepted and carried out by their clients, and whether the broad client motive is to comply or not comply. This might allow the VfM auditors to recognise that the continuing relevance of the VfM audit is directly related to its ability to adapt to Public Sector organisational changes. Hence, in order for the VfM audit to be truly successful, and for the recommendations introduced by VfM auditors to be fulfilled by Public Sector organisations, these VfM auditors must meet the demands and expectations of their clients and perform roles that match any changes which might take place in their organisations.
4. Chapter Four: Research Methodology

4.1. Introduction

The purpose of this chapter is to provide a detailed understanding of the research methodology, and the methods adopted in order to provide an explanation for the practical process of the VfM audit, and its usefulness in improving UK Public Sector performance. This explanation is brought about by a thorough examination of the VfM auditors’ perspective and that of the clients (professionals and Operational Managers) who are directly involved in this audit process.

Fundamentally, the chapter identifies and presents the two dominant epistemologies that have shaped social science research. These are the positivistic, or quantitative approach, and the phenomenological or qualitative approach. Each approach is outlined, as well as discussing the limitations of each perspective and justifying the need for a qualitative approach, which is the main stance the researcher is adopting in this Thesis.

The chapter is organised as follows: section 4.2 starts with a description of the assumptions and strategies of the main research paradigms and this study’s philosophical standpoint. Section 4.3 discusses the research strategy and design. Ethnographic research was adopted as a research strategy based on qualitative data from semi-structured interviews and the collection of official documents. The advantages and disadvantages of these methods are duly presented. Section 4.5 puts forward the data analysis procedures. Finally, section 4.6 provides a conclusion to the chapter.
4.2. Assumptions and strategies of the main research paradigms

Broadly speaking, there are two main paradigms, each at one extreme of a spectrum currently dominating social science research, namely the positivist and the social constructionist or phenomenological (Easterby-Smith et al., 2002; Creswell, 1994). Easterby-Smith refers to the positivistic paradigm as quantitative and the social constructionist paradigm as qualitative.

The positivistic paradigm assumes that the social world exists externally and that its variables are measurable through objective methods. To the positivists, it is possible to test and observe a phenomenon objectively (Easterby-Smith et al., 2002). The major research strategy associated with the positivistic paradigm is the quantitative approach (Filmer et al., 1972, cited in Silverman, 2000:5; Lincoln and Guba, 1985, cited in Maykut and Morehouse, 1994:12). This quantitative strategy relies on experiments, correlation, and surveys, as well as data collection methods, including structured interviews, postal questionnaires, and standard tests of performance and attitude inventories, which draw predominantly on statistical and mathematical models of analysis (Scott, 1996:59). Hence, this quantitative strategy principally seeks to aggregate data, most of which are assigned numerical values, and rely on certain categorisations to make generalised statements. However, it tends to ignore the difference between the natural and social world by failing to consider the ‘meanings’ that are brought to social life (Silverman, 2000).

In contrast, social constructionists argue that reality is socially constructed out of people’s subjectivities. Followers of this approach emphasise a qualitative, rather than
quantitative, strategy of data collection. They reject the belief that human behaviour is governed by general laws and characterised by underlying regularities (Cohen and Manion, 1994). Researchers adopting this view are generally interested in understanding the complexity of social interactions as expressed in the daily life of actors and with the meanings they themselves attribute to their actions and interactions. As Berg (2001) pointed out, the goal of understanding the social life of actors could hardly be achieved by means of a hypothetic-deductive strategy, but is more likely to be achieved by learning about people’s understanding and perceptions in order to explain how these give meaning to daily life, as well as enabling one to learn about, and make sense of, the self and others. As such, the researcher has to actively seek to understand the ways in which people perceive and interpret their world.

Positivist criticisms of the qualitative approach find expression in two broad categories. On the one hand, positivists are mainly dissatisfied with the ‘unscientific’ nature of the research methods employed in the qualitative research because of its failure to produce generalised findings. On the other hand, critical theorists have attacked the qualitative approach’s strong emphasis on action, meaning and subjectivity as a way to explain human conduct. From the qualitative researchers’ perspective, the concern is with understanding the meanings that participants attach to social actions.

In contrast, positivists usually adopt the scientific mode of the natural sciences. Emphasising scientific rigor, objectivity and quantitative measurement, they affirm that all information obtained must be gathered by means that are theory-neutral. It assumes that the researcher has no impact upon that information and his or her interpretation must be eliminated through the research design adopted (Hammersley and Atkinson, 2007).
Ryan et al (1993) criticised the positivistic theory for not explaining the behaviour of individuals. At best, they posit, it provides a calculus and measurements which, at some level of generality, can predict certain classes of economic phenomena. This approach might indeed be reasonably successful in predicting economic behaviour at the market level, but has been less successful in predicting individual behaviour.

The above discussion suggests a clear contrast between assumptions and strategies associated with the positivistic and social constructionist paradigms. The next section presents the philosophical standpoint of this study.

4.2.1. Positioning the present research

The literature reviewed in chapter 2 discusses the problematic nature of the practices of the VfM audit. It shows that there is a high level of subjectivity surrounding these practices since there is no standard criterion with which to decide whether a public body provides VfM services. Consequently, the quality of the VfM audit reports may vary from one auditor to another depending on their understanding of the situation under study, and on their competence to undertake this type of assessment. Hence, this study suggests that the use of a standardised, ‘one size fits all’ questionnaire is a precarious route since it is difficult to set up a questionnaire which is able to deduce the meaning attached by the VfM auditors to their action when making decisions regarding the VfM audit assessment. Keeping this argument in mind, and in light of the earlier outlined debate about the positivist and social constructionist philosophies, a qualitative research perspective has shown itself to be an appropriate framework for this research. This
follows Cassell’s and Symon’s (1994) proposition that qualitative methods are more appropriate to the kind of research questions which focus on organisational processes as well as outcomes, as well as gaining a greater understanding of both individual and group experiences of work.

The literature on the audit expectations gap has mostly focused on the Private Sector and utilised the quantitative approach, based on mail questionnaires, to examine how the auditor’s roles and responsibilities have been perceived by the auditors and different users of financial reports. The broad aim in such studies was to determine whether there is a gap between both parties’ perceptions. This approach has limited the opportunities for discovering new sources of knowledge, and does not help to explain what the auditors do, how they perceive their roles, why a gap exists and how it affects the performance of auditing. These questions have rarely been addressed, despite their arguable relevance and importance to the success of the whole auditing process. In addition, by adopting a positivistic approach, these studies have failed to recognise the influence of many other social factors in the environment that shape auditor and client perceptions and enhance or hinder the effective performance of auditing.

In addition, the lack of research on an audit expectations gap in the Public Sector audit in general, and the impact of the VfM audit on the public audited bodies in particular, means that a quantitative approach is not relevant to this study. As argued by Butterfield (2001), in order to identify the constituents of a quantitative instrument it is necessary to identify issues, either uncovered in previous studies, or to make assumptions as to its impact. These assumptions would be ‘tested’ through use of the instrument; such a
process could be argued to be purely confirming a predetermined view based on assumption and not fact.

Moreover, the overarching research objectives and questions, outlined in chapter 1, provide more justifications for the adoption of a qualitative approach. The questions endeavour to investigate audit expectations and perception gaps in the VfM audit environment, to identify the nature of potential role conflicts, and examine how the interplay of social factors can enhance or hinder the impact of the VfM audit on the audited bodies.

The research questions that were formulated to guide the study are:

- What do the external auditors and the clients expect from the external auditors in relation to the VfM audit?

- How do the external VfM auditors and the clients perceive the impact of the VfM audit on the audited bodies’ performance in the UK Public Sector?

- How do the external VfM auditors and the clients perceive both the impact of the interplay of social factors at the personal, interpersonal and external levels on the effective performance of the VfM audit and its impact on the audited bodies?

The formulation of the research questions took into account the fact that the research problem largely requires data gained from an insider’s perspective. The information obtained from these three questions was of two types: first, information representing the
expectations and perceptions of the VfM auditors and the clients themselves about the VfM audit and its impact on the audited bodies’ performance (ontological) and, second, information representing both the auditor and client evaluation of the usefulness of the VfM audit in improving performance and the impact of social factors on its effective performance. This evaluation was based on the perceptions of both parties, i.e. auditors and clients, in regard to the VfM audit performance (epistemological).

4.3. Specific qualitative framework

The specific qualitative framework within which the present study has operated is that of an ethnographic explanatory framework. Ethnographers argue that social phenomena should be examined in their natural state and should not be disturbed by the researcher. Hence, the primary source of data should be based on ‘natural’ not ‘artificial’ settings, such as experiments or formal structured interviews. In addition, the primary aim should be to describe what happens, how the research participants see and talk about their own actions and those of others, the context in which their action takes place, and the consequences of their action (Hammersley and Atkinson, 2007).

Although this study cannot claim to have adopted an extreme ethnographic approach, (i.e., one mainly based on participant observations) all the semi-structured interviews were carried out in the participants’ territories, behind closed doors and with sufficient assurance of confidentiality and informant anonymity. During the interviews, the author of this study endeavoured, to the best of his ability, not to lead the respondents, thus aiming to allow them to frankly express their own thoughts in their own words with
minimal interviewer intervention, except in the case of supplying or requesting necessary clarification.

While adopting an ethnographic design in this study, I was aware of the disciplinary criticisms. Positivists argue that ‘ethnography’ was sometimes dismissed as quite inappropriate to social science, on the grounds that the data and the findings it produces are ‘subjective’, mere idiosyncratic impressions of one or two cases that cannot provide a solid foundation for rigorous scientific analysis. In reaction, ethnographers developed an alternative view of the proper nature of social research, which they often termed ‘naturalism’. (Lofland 1967; Blumer, 1969; Matza, 1969; Denzin, 1971; Schatzman and Strauss, 1973; Guba, 1978, cited in Hammersley and Atkinson, 2007: 7). Despite these criticisms, an ethnographic explanatory design still appears to be the most appropriate for my research for the following reasons: firstly, the nature of the study requires the use of natural research settings and the gathering of first-hand empirical data through one-to-one interviews with those participants directly involved in the VfM audit processes. Secondly, the broad aim of my study is to provide an explanation of the process of the VfM audit in practice and to illustrate how its impact on the audited bodies has been perceived by those actors (i.e. the external auditors and the clients) directly involved in the process of VfM auditing. The qualitative methods chosen for this study are discussed later in this chapter.
4.4. Choosing the research design – case study

While the first part of this chapter discusses the theoretical assumptions adopted in this study, the rest of the chapter presents the methodology in practice. This includes the strategies and techniques used to collect and analyse the data.

The need to provide an explanation and a better understanding of the VfM audit in practice, and to obtain detailed knowledge about how it has been perceived by the VfM auditors and their clients, and also the need to guarantee a significant variety of data (Yin, 1994), led to the adoption of a multiple case study approach. Client participants represent four public organisations, namely: the National Health Service (NHS), Local Government Authorities, the Police Service and Housing Associations. Auditor participants include those working for the National Audit Office (NAO) and the Audit Commission, together with auditors from private accounting firms carrying out the VfM audit in Public Sector bodies. Further details about the appropriateness of these participants to the study, and the criteria by which these organisations were selected, are discussed later in the section ‘Sample of the study’.

The rationale for the adoption of a multiple case strategy was: firstly, as a contingency against not being granted access to sufficient and relevant participants. Secondly, gathering data from different public bodies which provide different services and have different types of profession, afforded the author an opportunity to preserve the in-depth and rich understanding of the context of the research enquiry (Moris and Wood, 1991). Thirdly, it promoted the cultivation of a more general perspective and enabled the researcher to maintain a variety of views about the practicality of the VfM audit and its
usefulness in improving performance in these audited bodies. Finally, addressing the same research questions, and using an identical data collection across the auditing and the audited bodies involved in the study, provided the chance to carry out cross-case comparisons, while giving a greater opportunity to generalise the findings.

Nevertheless, such a case study design will inevitably encounter some criticisms. Cohen and Manion (1994: 38) argued that, unlike a survey design which permits generalisations based on a large and representative sample of participants, a case study design tends to limit the scope within which a researcher can generalise the findings emerging from the results of the study. Therefore, in order to improve the potential for generalising the research findings, multiple case data collection should be carried out with precaution and should consider the degree to which the data collection effort is structured (Firestone and Herriott, 1982). Another important factor for consideration when adopting a multi-case design is using common methods of data collection in order to ensure that the similarities and differences across cases are characteristic of the cases themselves, and not the result of using different measurement procedures or researcher bias (Pelto and Pelto, 1978). In addition, it is important for the researcher to take into consideration the unique aspects of each site that may make special contributions to the phenomena of interest, through the use of standardised processes.

The data collection for this study was undertaken solely by the author. This increased the level of consistency both of the methodology adopted across cases and the study’s overall approach. Crucial to the study’s efficacy is number of the cases, with a higher amount giving greater ability to generalise (Kennedy, 1979). Due to time, access and cost constraints, it was considered unrealistic to involve more than four public
organisations, to represent the audited bodies, as well as three auditing bodies. In order to overcome the limitations mentioned earlier, and to improve the potential for generalising the findings, the participants were chosen from different sites within a Public Sector organisation. For example, participants from Local Government Authorities were chosen from different city councils in different areas, with a similar strategy used for the rest of the organisations involved.

Overall, despite these criticisms and cautionary issues, the design was found to have the advantage of allowing the researcher to delve deeply into the research participants’ real experiences, offering the chance to understand how they perceive the usefulness of the VfM audit and to examine how the interplay of social factors can hinder or enhance the VfM audit’s effective performance.

4.4.1. Data collection: Interviews

Having decided to employ a multiple case study rather than the questionnaire-led approach to collect the primary data, it was important to establish a data collection process that was both robust in design and able to produce sufficient data and obtain evidence on how the VfM audit has been perceived by the auditors and their client in the UK Public Sector.

The primary instrument through which data was collected was that of the interview. Sharp and Howard (1996) argued that interviewing makes clearer the meanings interviewees attribute to a given situation and helps the social researchers see situations
through the eyes of the participants. Cassell and Symon (1994) added that the interview is suitable to examine topics within which different levels of meaning need to be explored, to see the world of an individual or group of people from the inside, and to understand how and why they come to have their particular perspective. They posited that such goals are very difficult to accomplish using quantitative methods.

Interviews, the method retained for this research, nonetheless have limitations. Ryan et al. 1992) argued that, besides the fact that interviewing is much more expensive than some other methods, e.g. postal questionnaires, it is also time consuming. Coding, i.e., classification of the data collected, and briefing are examples of the time consuming activities involved in the full interview process. Another limitation associated with interviewing is that of bias. This is likely to occur as a result of some motivation on the part of the participant, or interviewer, or both to falsify information (Saunders et al. 2000). A further limitation, inherent in the methodology adopted, is the fact that the research findings were based essentially on subjective perceptions held by the participants as well as on the researcher’s interpretation and his ability to determine, choose and analyse the empirical data considered to be the most important and appropriate. Since these involved value judgements, the analyses faced the risk of being biased towards values that the researcher espoused, and the extent of his knowledge to make such choices. Nonetheless, this limitation was moderated through selecting non-random subjects; the author endeavoured to involve particular participants, who not only have long experience, but also were willing to participate and articulate that experience.

Were this research topic to be investigated in exactly the same field with different participants and a different researcher, significantly different findings might emerge. In
addition, the researcher cannot claim to make a statistical generalisation of the findings. Note that the objective of this study was not to test an existing theory, but to provide an explanatory study that would allow a better understanding of the practicality and usefulness of the VfM audit.

Despite the limitations mentioned above, it was deemed that the advantages of semi-structured interviews rendered them the most appropriate means for this study. Following Drever’s (1995) guidelines for conducting semi-structured interviews, the author endeavoured, to the best of his ability, to overcome the limitations associated with the interviewing design. Pertinent themes to be covered by all the interviews were determined, and specific, principal questions composed. Although the questions differed slightly in some interviews to address a specific organisational context, the main idea for each question was common to all the interviews. This was to ensure that as far as possible all the VfM auditors, and those of their clients involved in the study, had the opportunity to respond to the same questions. The questions were also carefully formulated to ensure that, as far as possible, the author’s own views would not intrude, and neither would the interviewee be led to respond in a pre-determined manner.

In addition, conducting semi-structured interviews provided an opportunity to minimise the possibility of bias because both the interviewee and researcher were able to clarify any misunderstandings or confusion without delay. It was also possible to adapt the questions, when necessary, to clarify doubts and ensure that the responses were properly understood by repeating or rephrasing the questions. It was also possible to alter the sequence of the questions, encouraging the participants to continue talking and only when it was suspected that the participant had forgotten to mention some relevant issues
was he or she encouraged to discuss these through the use of prompting questions such as; ‘what else ….?’, ‘what do you think about ….?’, and ‘what was it about this situation that made you feel this?’ Another method employed was that of probing to clarify some unclear response through the use of questions such as: could you please tell me what you meant in regard to this…..? (Berg, 2001). Such an approach provided the opportunity to amass in-depth and rich data, while the fact that a relatively small number of participants were involved minimised those problematic issues relating to time consuming codifying and categorising data. This strategy also enhanced the validity of the information provided and yielded a representative sample of verbatim comments which could be used as illustrative quotations when writing up the Thesis (Arber 1993).

Finally, since this study sought to gather firsthand data from the VfM auditors and their clients about their own individual views on the performance of the VfM audit and its impact on the audited bodies, the questions were designed to allow open-ended responses while avoiding any restricted answers. This approach promotes a non-threatening atmosphere and allows a lively discussion with the interviewees during the interviews.

4.4.1.1. The content of the interview

Interviews were sought in order to obtain information from the participants about their expectations of the VfM audit and their perception of the following issues:

- The expectations of the VfM auditor’s roles
• Perception of the VfM audit’s usefulness.

• Whether the VfM audit has been perceived as a process of controlling or a means to achieve performance improvement.

• The impact of social factors at the personal, interpersonal and external levels on the effective performance of the VfM audit.

• The materiality of the VfM auditors’ findings.

• The truth and fairness of the VfM auditors’ reports.

• Client compliance with auditor recommendations.

• The nature of role conflicts in the VfM audit environment.

The issues mentioned above were used as guidelines to set-up the interview questions. During the interviews more detailed information about these aspects was sought. When the participants were interviewed about their expectations the emphasis was on identifying their expectations about roles and responsibilities of the external VfM auditors and their views on what these roles should involve. For example, should the VfM auditors suggest solutions to remedy problems encountered by the audited bodies in order to help them improve performance, or should they just highlight areas that needed to be improved then leave it to the audited bodies to address these issues in order to safeguard auditor independence?

In terms of the participant perceptions about the VfM audit’s usefulness, the interview emphasised the question of whether the VfM auditors were regarded either as controllers who question the accounting practices of the audited bodied or as catalysts for improvement and change in the audited bodies. In the same vein, the interview focused on how the interplay of personal, interpersonal and external factors in the VfM audit
environment could enhance or hinder the effective performance of the VfM audit in terms of improving the audited bodies’ performance and making a real change in the management of public resources.

In respect of auditor competence, the interview raised the question of whether the VfM auditors were adequately equipped with the requisite technical skills to hold a balanced assessment of the 3Es (i.e. economy, efficiency and effectiveness) in the use of public resources by the audited bodies. Such an emphasis is due to the fact that the assessment of economy and efficiency is based on quantitative measures, while effectiveness assessment is based on a high level of subjectivity. Similarly pertinent was the issue of auditor competence and whether they have sufficient knowledge and relevant experience of the audited bodies’ business.

In terms of the issue of materiality, the interview gave prominence to participant perceptions about the materiality of the value-added element in the VfM auditors’ recommendations to the audited bodies. This added value was considered in line with the cost incurred by the audited bodies when holding the VfM audit. Of further relevance to materiality is the level of assurance. Participants were asked to comment on their perception of the level of assurance provided by the VfM auditors in terms of whether public resources have been managed wisely by the audited bodies.

Regarding the truth and fairness of the VfM audit reports, the participants were asked to express their views on the VfM reports’ ability to represent the underlying reality of the audited bodies. Three types of role conflicts were addressed in the interviews, a) conflict between the VfM auditors’ roles and their own values and standards (person-role
conflict), b) a conflict between their capabilities and their role requirements (role overload), and c) conflict between the VfM auditors and their clients (inter-sender conflict).

Having set out the issues that needed to be covered by the interview questions, the following section illustrates the interview mechanism.

4.4.1.2. The interview mechanism

This section discusses the approach to the interviews. Having the interview questions ready, a mock interview was conducted with a faculty member from the accounting department at Anglia Ruskin University, UK, who had previous experience in auditing. This experience honed and improved the author’s interviewing skills, while sharing views with those who, holding a similar academic interest to that described in this research, had the generosity of spirit to give forthright comments and precise criticisms. Such an experience also helped to predict, in very general terms, possible interviewee reactions to, and interpretations of, the interview questions.

Once the initial criticisms and comments from the mock interview had been considered, a pilot study, based on small scale versions of a full-scale study, was conducted. This entailed conducting a trial interview, under realistic conditions, with the objective of obtaining the most information possible from experienced individuals about their spontaneous responses to the content of the interview (Drever 1997).
One audit manager and two directors of quality performance from the Local Government Institutions were interviewed in a pilot study. These participants were chosen because of their substantial experience of VfM auditing. They are directly involved in the process of the VfM audit since they are required to prepare evidence, hold interviews with the VfM auditors, negotiate with them the findings and recommendations and transfer the recommendations into action. The result of the pilot study was encouraging since it showed that most of the study’s concerns were real. The auditor interviewed in the pilot study alluded to weaknesses of the VfM audit process. He argued that these processes need to be reformed to be relevant to continuing change in the Public Sector organisations, and he refers to the current VfM auditing system as an ‘old fashioned processes’. He also implied that there is a high level of auditor-client distrust, which in turn indicates the existence of potential perception gaps and potential role conflicts within the VfM audit environment. This distrust mostly centres on the competence of the VfM auditors to provide their clients with value added recommendations.

Although the pilot study’s clients’ perceptions of the VfM audit’s usefulness in improving performance in their institutions were generally positive, they expressed reservations about the competence of certain auditors, the materiality of their findings, and the practicality of their recommendations.

Overall, the pilot study helped redefine areas for the main study. It resulted in amending, eliminating, or splitting some questions in order to maintain relevance and obtain detailed data. This in turn confirmed the appropriateness of my proposed research methods and instruments. The pilot study was, moreover, most beneficial in helping to
identify the most relevant participants based on the advice provided by the pilot study interviewees.

The final version of the interview questions was sent to the interviewees in advance and the interviews were carried out in the period from early July 2007 to early May 2008. Each interview lasted, on average, between 40 to 75 minutes. Two of the participants refused permission for the interview to be recorded on an audio cassette and a further three interviews, which had been recorded in this manner, were not transcribed due to poor recording quality; nonetheless, every effort was made to write down all the important points discussed in these interviews. Tape recording permits everything to be documented, and allows the interviewer to be more attentive to the interviewee which improves their rapport. All the interviews were face-to-face with an individual interviewee, apart from three interviews which were conducted in face-to-face groups. In this last case, each group consisted of two participants as well as the interviewer.

4.4.1.3. Sample of the study

As mentioned earlier, in order to get access to relevant and sufficiently numerous participants, it was considered appropriate for the participants to be selected from different public organisations. It was also considered that preserving the diversity of the research’s population by contacting a wide range of professions would improve the comparability and the generalisability of the research findings. Hence, the selection of the participants for this study was based on two processes: a) the selection of the
auditing and the audited bodies in the UK Public Sector, and b) the selection of relevant participants within these public bodies.

The methodology used for the data collection thus encompassed auditors and clients from different organisations. The auditors were selected from three distinct auditing bodies, namely: the National Audit Office (NAO), the Audit Commission (AC) and private accounting firms, which provide the VfM audit to Public Sector institutions. These organisations differ in terms of their responsibility to audit specific public organisations. For example, the responsibility of the NAO covers mainly the Central Government departments. The NAO also carries out selective auditing projects in both financial and VfM audits in any public body in Central and Local Government according to parliamentary demand. Meanwhile, the Audit Commission’s responsibility covers Local Government bodies; although the Audit Commission has their own staff to fulfil their duties, the majority of accounting work is subcontracted to various private accounting firms. More weight was, therefore, given to the VfM auditors from the private accounting firms rather than to the auditors from the NAO and the AC.

Client participants were selected from four sectors, namely, the National Health Service (NHS), Local Government Authority, the Police Authority, and Housing Associations. The selection of these sectors was based on the diversity of professions present in these bodies and also the diversity and importance of the services they deliver to the Public. This was considered imperative since the VfM auditors may have to lessen their emphasis on improving the efficiency (spending less for the same quantity of outputs) of some of the public services for the sake of keeping high quality standards, particularly when these services relate to public health or safety. Hence, the ability of the VfM
auditors to provide a balanced assessment of these services’ efficiency and effectiveness may shape the perceptions of their clients who are involved in the delivery of these services.

Another critical issue in the selection of audited organisations to be investigated for this research is that of the length of time for which these organisations have been subject to a VfM audit. The significance of this factor derives from Katz and Kahn’s (1978) proposition that the quality of relationship existing between a focal person and his or her role-set is significantly influenced by the frequency of interaction between them. The present study argues for a logical extension of this notion: the longer the period of time that the audited bodies have been subject to VfM audits, the better their likely understanding of the roles and responsibilities of the VfM auditors and the greater the extent to which these auditors can fulfil these roles. Such a situation is in turn more likely to minimise the potential existence of an audit expectations gap between the VfM auditors and their clients.

4.4.1.4. Selection of interviewees

The previous section discussed the process of selecting the auditing and audited bodies for this study. This section presents the criteria by which the interviewees were selected from these public bodies. Bearing in mind the fact that this study adopts a qualitative approach based on a small sample of participants, and since the study’s broad aim is to provide a better understanding of the practice of the VfM auditing, it was decided that the study should involve a particular type of participant, i.e., those who have relevant
experience in the VfM audit and are willing to participate and articulate that experience. This research’s sample has, therefore, not been random.

In selecting members of their role-set, Tsui & Gutek (1984) asked each focal person to identify these members based on their personal relationship. In contrast to the collaboration with Gutek, Tsui (1984b) as an individual scholar, dealt with this task in a different manner, asking the focal role managers to select members with whom they frequently interact in respect of job-related matters. In accordance with this stance, I adopted a similar approach to that of Tsui (1984b). Hence, the selection of interviewees for the purposes of this study was determined by the researcher’s desire to encounter and interview individuals who interact with the VfM auditors.

It was decided that the senior professionals and Operational Managers chosen as focal-persons in this study should have a direct involvement in the process of the VfM auditing. They are required to provide the VfM auditors with evidence about the performance of their organisations. They also communicate with the auditors by means of formal and informal interviews in order to discuss related issues, negotiate the findings and the VfM audit recommendations, and finally transfer these recommendations into action.

In order to gain access to this type of participant, I first approached the performance improvement departments of the audited organisations who agreed to collaborate with the research project and assisted in identifying suitable people. This added to the validity of the responses obtained, since the respondents were knowledgeable and informative. The number of the participants was based on judgmental sampling, with as many
participants as possible having been interviewed until no new information emerged (Arber, 1993). Table 1 presents information regarding the interviewees who have taken part in this study.

Table 1: Presentation of the participants for this study.

<table>
<thead>
<tr>
<th>Participants from the auditors</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Audit Commission (both were partners)</td>
<td>2</td>
</tr>
<tr>
<td>- National Audit Office (both were district auditors)</td>
<td>2</td>
</tr>
<tr>
<td>- Private Sector Accounting Firms (7 partners and 6 senior managers)</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total participants from the auditors</strong></td>
<td><strong>17</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Participants from the clients</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local Government Authorities</strong></td>
<td><strong>5</strong></td>
</tr>
<tr>
<td>- Head of quality performance</td>
<td>3</td>
</tr>
<tr>
<td>- Director of performance</td>
<td>1</td>
</tr>
<tr>
<td>- Urban growth manager</td>
<td>1</td>
</tr>
<tr>
<td><strong>National Health Service (NHS)</strong></td>
<td><strong>6</strong></td>
</tr>
<tr>
<td>- Director of Nursing</td>
<td>4</td>
</tr>
<tr>
<td>- Director of performance</td>
<td>2</td>
</tr>
<tr>
<td><strong>Police Authority</strong></td>
<td><strong>5</strong></td>
</tr>
<tr>
<td>- Head of corporate development</td>
<td>1</td>
</tr>
<tr>
<td>- Director of performance</td>
<td>1</td>
</tr>
<tr>
<td>- Deputy chief executive &amp; treasurer</td>
<td>2</td>
</tr>
<tr>
<td>- Principle management accountant</td>
<td>1</td>
</tr>
<tr>
<td><strong>Housing Associations</strong></td>
<td><strong>6</strong></td>
</tr>
<tr>
<td>- Director of housing</td>
<td>5</td>
</tr>
<tr>
<td>- Head of tenant services</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total participants from the clients</strong></td>
<td><strong>22</strong></td>
</tr>
<tr>
<td><strong>Total participants from both parties</strong></td>
<td><strong>39</strong></td>
</tr>
</tbody>
</table>
As can be seen in the Table, a total of thirty-nine participants, consisting of auditors and clients, were interviewed. The auditor group makes up forty-four per cent of the total respondents and includes both public and private audit bodies, the members of which were all at least senior managers. The client group makes up fifty-six per cent of the total participants, all of whom enjoyed a high professional profile and wide experience of the VfM audit. The variation between the number of auditors and clients interviewed was justified on the basis of the population of the professionals and Operational Managers in the Public Sector organisations, which is more numerous than the total number of VfM auditors. Due to access difficulties, it was not possible to involve matched pairs of participants from both parties, i.e., external auditors and clients, specifically auditor participants. However, most of the external auditors involved in this study have worked across different public audited bodies including these audited bodies, which are involved in this study.

The difference between the numbers of auditors from each auditing body has been accounted for in the previous section. Nonetheless, the auditors interviewed from the NAO and the AC were highly informative, owing to their wide knowledge and experience of the VfM audit and the fact that some are charged with training auditors in how to conduct a VfM audit.

4.5. The collection of official documents as a secondary data

As discussed in section 4.1, in order to encompass all the issues surrounding the VfM audit, and to provide a better understanding of how its performance has been perceived
Chapter Four: Research Methodology

by the VfM auditors and the clients, it is important to examine both parties’ expectations of the VfM audit roles and to discover whether a gap exists. Porter (1993) argued that an audit expectations gap may exist if the auditors’ clients have unreasonable expectations of the auditors’ roles which differ from the roles defined by the law, and if professional promulgations and the auditors themselves do not recognise that the expectations form part of their roles.

Therefore, to investigate an audit expectations gap between the VfM auditors and the clients, it is important to collect the relevant official documents which clarify both the scope and the limitations of the VfM auditors’ role. The defined roles, as laid out in official documents, are used by this study as benchmarks to be compared with the actual VfM auditor and client expectations in order to reveal whether the gap between these sets of expectations is reasonable or unreasonable.

The official documents were collected from the UK Government’s Acts granting statutory authority to the external auditors to carry out a VfM audit. They determine the auditors’ roles and responsibilities. Further official documents were also collected from the National Audit Office’s (NAO) and the Audit Commission’s (AC) codes of audit practice. By law, these regulatory bodies have to prepare and keep under review a Code of Audit practice prescribing the responsibilities of Public Sector auditors. The Code should be approved at intervals of no more than five years (section 14, Local Government Finance Act, 1982). Hence, the contents of these documents were valid and comparable with participant perceptions and expectations. More details about these official documents are presented in the next chapter (data analysis).
4.6. Data analysis

Since the primary data was collected from different auditing and audited public bodies, this data was first grouped according to the main sectors involved. The interview transcripts were listed under the heading of each main sector, which were:

**Audited bodies / clients**
- NHS bodies’ interviews
- Local Government Bodies
- Police Authorities
- Housing Associations

**Auditing bodies / auditors**
- National Audit Office
- Audit Commission
- Private accounting firms

It was determined that grouping and analysing data collected from each main sector would enable subsequent cross analysis between the various groups of interviews to be undertaken. For example, member group NHS bodies could be compared with member group Local Government bodies, Police Authorities and Housing Associations. Likewise for the auditor participants, a comparison could be carried out across the three groups.

Following suggestions by Dey (1993); Smith (1979) and Tesch (1990) (all cited in Maxwell 1996,) the process of the data analysis commenced with reading the interview
transcripts alongside the notes taken during the interviews. Notes and memos on the data were then written and tentative categories developed. The objectives of the study and research questions guiding the study were considered at length. Each transcript was then re-read to unitise the data. The process of data unitising was achieved through the practice of identifying utterances eliciting the expectations and perceptions of the interviewees about the VfM audit. Illustrative utterances from each interview were selected as ‘quotations’ and these quotations were initially sorted on the bases of their similarity. These groups of quotations were then copied to another file so that they could be analysed whilst ensuring that the original data was left uncontaminated. Groups of quotations are arranged and rearranged, and eventually the meaning of each group begins to be consolidated and a definite category starts to be constituted.

A total of four main categories were formed; a) the participant expectations of the roles and responsibilities of the VfM auditors; b) the participant perceptions of the performance of the VfM audit. This category consist of different subcategories, i.e. the participant’s perceptions of VfM auditor competence, their perceptions about the materiality of the VfM auditors’ findings, the truth and fairness of their reports, and whether the process of the VfM audit has been perceived as controlling or improving the process; c) the participants’ perceptions of potential role conflicts. This category divided into three subcategories, i.e. a conflict between the VfM auditors’ roles and their own values and standards (person-role conflict), conflict between the VfM auditors’ capabilities and their role requirements (role overload), and conflict between the VfM auditors and their clients (inter-sender conflict); and d) participant perceptions about how social factors might affect the VfM audit’s impact on the audited bodies. This last
category of social factors was subdivided into three categories, i.e., personal, interpersonal and external.

During the process of categorisation, units of data were examined to find out whether any of the units corresponded with more than one category. Any such units were then placed in as many categories as deemed relevant. Having placed each unit in one or more relevant category, the data’s consequent redundancies were eliminated.

When the process of categorisation was complete, each category was then read through once more, and the units with a relevant meaning were clustered in order to identify any common theme and trends emerging from the relevant units. Themes having been thus identified, the number of participants supporting these themes or trends was quantified. This quantification process was based on the participants’ own words in the transcript. After carrying out cross-case analysis, the results of the analysis were presented.

Similar to Tesch (1990) Hycner (1985) provided a series of procedures with which to analyse the data collected from the interviews. These procedures were followed in this study analysis. These are:

1- Interview transcription.

2- Bracketing and reduction: the recordings and the transcriptions are approached with an openness as to whether meanings emerged. This is an essential step in eliciting the units of general meaning. Hycner added that it means suspending (Bracketing), as far as possible, the researcher’s meanings and interpretations and entering into the unique world of the individual who was interviewed.
3- Listening to the interview for a sense of the whole. This will involve listening to the entire tape several times as well as reading the transcription a number of times. This will provide a context for the emergence of specific units of meaning and themes later on.

4- Delineating units of general meaning. This is to begin a rigorous process of going over every word, phrase, sentence, paragraph and noting significant non-verbal communications in the transcript in order to elicit the participant’s meanings. This is a crystallisation and condensation of what the participant has said.

5- Delineating of units of meaning relevant to the research questions. This is the process of addressing the research questions to the units of general meaning to determine if what the participant has said responds to and illuminates the research question.

6- Eliminating redundancies. The researcher should look over the lists of units of relevant meaning and eliminate those which are clearly redundant to others previously listed.

7- Clustering units of relevant meaning. To determine if any of the units of relevant meaning naturally cluster together. In other words, whether there seems to be some common theme or essence uniting several discrete units of relevant meaning.

8- Determining themes from clusters of meaning. At this stage the researcher interrogates all the clusters of meaning to determine whether there is one or more central theme which expresses the essence of these clusters.

9- Writing a summary for each individual interview.

10- Identifying general and unique themes for all the interviews.
4.7. Conclusion

This chapter has defined and presented the methodological position of this study as explanatory and social constructionist. The methods used are qualitative ethnographic, and it employs semi-structured interviews as the main means with which to collect primary data. The collection of secondary data, i.e., official documents about the roles and responsibilities of the VfM auditors, has been justified. The characteristics and implications of such a methodological stance, and the research methods, have also been examined. The methodological approach and research methods adopted in this study would enhance understanding of the auditor and client perceptions in regard to the impact of the VfM audit on the Public audited bodies in terms of improving the performance of these bodies. An interview guide was developed and personal semi-structured interviews were conducted with thirty-nine participants. Clustering analysis based on analytical procedures proposed by Tesch (1990) and Hycner (1985) for data analysis were adopted. The analysis and results of the data collected are presented in the following two chapters respectively.
5. Chapter Five: External auditors’ and clients’ expectations and perceptions of VfM audit roles

5.1. Introduction

This chapter provides empirical data about the expectations and perceptions of external VfM auditors and their clients. The aims of this chapter are: (1) to investigate any audit expectations and perception gaps between the external VfM auditors and their clients and to identify the nature of potential role conflicts, their causes and consequences in the VfM audit environment; (2) to examine the impact of the VfM audit on the audited bodies’ performance and to ascertain whether the VfM audit has effected real change in the way these organisations manage public resources; (3) to examine, from the perspective of both external VfM auditors and their clients, the impact of the VfM audit on the audited bodies in the UK Public Sector, and keeping in mind these diverse perspectives, to investigate whether the interplay of social factors at the personal, interpersonal and external levels can enhance or hinder the VfM audit’s impact and its effective performance.

Consistent with Katz and Kahn’s (1978) role theory, specifically their model of the process of role taking, it could indeed be suggested that VfM auditors do not operate in a vacuum, but rather in roles that are intended to affect the clients. VfM auditors identify the strengths and the weaknesses in the clients’ conduct and encourage them to fulfil their statutory requirements and improve their performance. Auditors establish relationships, the nature and parameters of which are defined according to their
interaction and communications with the clients. Both parties hold differing perceptions and expectations of one another. Auditors have expectations of the clients in terms of the way they handle public resources and deliver VfM services. Clients also have expectations of the roles applied by the auditors and the usefulness of the VfM audit. In other words, auditors are expected to perform according to the roles expected by the clients, and to provide valuable recommendations. If auditors do not fulfil these expectations, clients will punish them through non-compliance and by not placing high confidence in the auditor findings and recommendations. Therefore, both parties are required to exhibit roles which are, to some extent, consistent with the expectations and perceptions of one another. If these expectations and perceptions are congruent with each other then this might be considered as a positive indicator of the impact of the VfM audit in improving the audited organisations’ performance. However, when there is no consistency between the two parties’ perceptions and expectations, audit expectations gaps are likely to exist and give rise to role conflicts (see section 3.4 for details about three potential conflicts) in the VfM audit environment.

The above analysis implies social interactions and a negotiation process during the VfM audit processes, and before the auditors issue their final reports and recommendations for the audited bodies to implement. These negotiation processes are likely to be influenced by conceptual social factors in the VfM audit environment at the personal level (the competence of the auditors based on their relevant experience and sufficient knowledge of the Public audited bodies’ business), the interpersonal level (the task interdependence between the external VfM auditors and the clients), and the external level (the ambiguity in the process of the VfM audit). These factors are likely to exert a considerable impact on the distribution of power between the external VfM auditors and their clients.
Overall, this chapter provides empirical data to answer the following principal research questions:

Q 1. What do the external auditors and the clients expect from the external auditors in relation to the VfM audit?

Q 2. How do the external VfM auditors and the clients perceive the impact of the VfM audit on the audited bodies’ performance in the UK Public Sector?

Q 3. How do the external VfM auditors and the clients perceive the impact of the interplay of social factors at the personal, interpersonal and external levels on the effective performance of the VfM audit and its impact?

This chapter is organised into five sections including the introduction. Section 5.2 looks at the expectations and perceptions of external auditors and clients about the VfM audit, and then considers the roles of auditors in UK Public Sector institutions. This section focuses on investigating audit expectations and perception gaps as they occur between auditors and clients. This is followed by section 5.3 which identifies the nature of role conflicts in the VfM audit environment and discusses the causes and the consequences of potential conflicts. A conclusion to the Chapter is provided in section 5.4.

5.2. Expectations and perceptions of the VfM audit and auditor’s roles.

As mentioned in Chapter 3, role consists of two elements: i) ‘role behaviour’, i.e., the
actual role performed by external VfM auditors, and ii) ‘role expectations’, which refers to roles that others (clients, i.e. audited bodies in the context of this study) expect external VfM auditors to perform. Crucial to examining client perceptions of VfM auditor performance is a full consideration of the expectations that these clients hold in regard to their VfM auditors. The VfM auditors’ role is viewed positively if there is congruence between the expectations and perceptions of the external VfM auditors’ role as expressed by the clients. However, an audit expectations gap is indicated when there is a discrepancy between these clients’ expectations and perceptions of the external VfM auditors’ role.

Based on Porter’s (1993) definition of the audit expectations gap (see section 2.5), this section posits and examines the existence of two types of gap, i.e. an audit expectations gap and an audit perceptions performance gap between external VfM auditors and clients. It would appear that these two types of gaps are linked. In considering the audit expectations gap, emphasis is placed on determining the degree to which participant - particularly client - expectations of external VfM auditors are reasonable. A thorough examination of the perceptions of the VfM audit’s performance was a necessary part of this investigation, because if clients have unreasonable expectations of the external VfM auditor’s roles, there is a greater likelihood that these clients will not be convinced of adequate auditor performance, a fact which seems to indicate the existence of a clear audit perceptions performance gap between the two parties.

Hence, in order to demonstrate the existence of these types of gaps, it is first important to know the roles of the external VfM auditors as prescribed in the official documents and defined by the law and professional promulgations. These role definitions are then used
by this study as benchmarks to be compared with participant expectations of the external VfM auditor’s roles. The following section presents these benchmark-serving officially defined roles.

5.2.1. The role of VfM auditors based on official documents

The first official document regarding the auditor roles in relation to the VfM audit appeared in the Local Government Finance Act in 1982. Section 15 of the Act sets out, in the context of England and Wales, the general duties of the auditor. According to these duties, auditors are required to make sure that the body whose accounts are being audited has prepared proper arrangements for securing economy, efficiency and effectiveness in the use of public resources (House of Commons Library Research Division, 1992).

This act was consolidated by the National Audit Office Act 1983. The Act states that the Comptroller and Auditor General (C&AG) may: “carry out examinations into the economy, efficiency and effectiveness with which any Government department or other relevant body has used its resources in discharging its functions” – Section 6(1), National Audit Act 1983.

These three criteria, i.e. economy, efficiency and effectiveness, have been defined as follows:

- Economy: minimising the cost of resources used for an activity, while having regard
to appropriate quality.

- Efficiency: the relationship between outputs, in terms of goods, services or other results, and the resources (e.g. financial resources) used to produce them. An efficient activity maximises output for a given input, or minimises input for a given output and, in so doing, pays due regard to appropriate quality.

- Effectiveness: the extent to which objectives have been achieved, and the relationship between the intended impacts and actual impacts of an activity.

The Audit Commission’ Code of Audit Practice – 2005, section 20 determines the audited organisations’ responsibilities in relation to VfM arrangements as follows:

“It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of public resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them” (Audit Commission, 2005).

Describing the extent to which external VfM auditors may actively collaborate with their clients to ensure improved client performance, section 22 of the same Code states:

“Auditors are not required to consider whether aspects of the audited body’s arrangements for securing economy, efficiency and effectiveness in its use of resources are effective”.
In addition, auditors are also required to contribute to the improved performance of Public Sector institutions based on their ability to carry out a good quality audit and to provide the clients with valuable and practicable recommendations. This was emphasised in section 35 of the Code of Audit Practice – 2005:

“Auditors should report to the audited body in such a way as to enable its members or officers to understand (1) the nature and scope of the audit work (2) any significant issues arising from auditors’ work (3) the nature and grounds for any concerns they have and (where appropriate, any action that needs to be taken by the audited body to secure improvement” (Audit Commission, 2005).

This contribution to improvement (Code of Audit Practice, 2005, section 36) could be obtained by providing the audited body with recommendations which should be:

“specific about what action the audited body should consider taking, [be] useful, practicable and based on an assessment of the benefits to the audited body of implementing them and take account of costs of implementation and where these are likely to be significant, report this” (Audit Commission, 2008).

Significantly however, the VfM auditors’ responsibilities do not involve questioning the merits of the audited bodies’ policies and their decision to implement auditors’ recommendations to secure economy, efficiency and effectiveness. Section 25 of the Audit Commission’s Code of Audit Practice 2005 – for Local NHS bodies states:

“In reviewing the audited body’s arrangements for its use of resources, it is not part of the auditors’ functions to question the merits of the policies of the audited
body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. The audited body is responsible for deciding whether and how to implement any recommendations made by auditors. In making any recommendations, auditors should avoid any perception that they have any role in the decision-making arrangements of the audited body” (Audit Commission, 2005).

VfM auditors are also required to encourage innovation in the audited bodies while avoiding audit overload. Hence, VfM auditors should consider the audited bodies own arrangements to secure economy, efficiency and effectiveness. Section 27 of the Audit Commission’s Code of Audit Practice 2005 for Local NHS bodies encouraged auditors to have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work;
- the results of assessments of performance carried out by the Healthcare Commission;
- and the work of other statutory inspectorates”.

The two acts mentioned above, and the Code of Audit Practice (last amendment in 2005), all state that the main role of the VfM auditors is to assess the issues of economy, efficiency, and effectiveness, and to assure the Public that the audited bodies make the best use of the resources at their disposal. Meanwhile, it is the responsibility of the audited organisations to put in place arrangements to improve performance and to deliver VfM services. The code also states that VfM auditors should contribute to performance improvement by providing their clients with value added recommendations
as a result of good quality audits they (the auditors) have undertaken, but they should not interfere in the audited body’s decision to implement these recommendations. In addition, auditors are required to consider innovations devised by the audited body and must avoid, where possible, audit overload. The following subsection presents auditor and client expectations in regard to these roles.

5.2.2. Expectations of the VfM audit and the auditors’ roles

The UK Public Sector has experienced growing and continuous pressure from a variety of governance bodies to change the way public services are run. This impetus for reform is encapsulated in the emphasis on value for money (VfM) audit as a scrutiny tool with which to improve performance in Public Sector institutions (Lapsley and Pong, 2000). However, Brazelay (1996) argued that in their attempt to improve performance VfM auditors are likely to experience a problem in determining how to earn the confidence of their clients so that the latter accept that the auditors are participating actively in the management process. He added, such confidence could be inspired if the auditors can fulfil the expectations of their clients by looking at client-supplied evidence, making professional judgments and, finally, devising and communicating positive recommendations for the purpose of improving performance.

The participants interviewed were asked about their expectations of the roles of the external auditors in relation to the VfM audit. The aim here was to investigate an audit expectations gap between the external VfM auditors and the client group. The focus was also to identify the nature (i.e. whether characterised by reasonable or unreasonable
expectations, see section 2.5 for details) of such a gap. This was determined through examining participant expectations of the VfM auditor capacity to facilitate improved client performance. Table 2 presents a summary of the expectations of the external VfM auditors’ roles as perceived by both external auditors and clients.

Table 2: Expected roles of the external VfM auditors as expressed by the auditors and their clients.

<table>
<thead>
<tr>
<th>Assertions</th>
<th>Auditors</th>
<th>Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>- In the VfM audit, auditors are required to assess the economy, efficiency and effectiveness.</td>
<td>100% 100% 88%</td>
<td>100% 67% 80% 83%</td>
</tr>
<tr>
<td>- In the VfM audit, auditors should suggest solutions to improve performance</td>
<td>0% 0% 0%</td>
<td>40% 83% 80% 67%</td>
</tr>
</tbody>
</table>

Key to Table 2:

NAO- National Audit Office  
HA- Housing Associations  
AC- Audit Commission  
PA- Police Authorities  
PAF- Private Accounting Firms  
NHS- National Health Service  
LGA- Local Government Authorities

Table 2 indicates a consensus among external auditors on their roles in providing a VfM audit. External VfM auditors evidently expect their responsibilities to be those of assessing client performance through evaluation of their economy, efficiency and
effectiveness. Furthermore, VfM auditors affirm that they are responsible for measuring these criteria against a set of performance indicators, or key lines of enquiry, as provided by Public Sector audit regulatory bodies such as the National Audit Office, the Audit Commission of Scotland, the Accounts Commission and the Audit Commission of England and Wales. As the following auditors commented:

“The Audit Commission clarified precisely what auditors’ responsibilities are in respect of VfM. These responsibilities are mainly to look at the audited bodies arrangements in order to secure the economy, efficiency and effectiveness” (auditor / Audit Commission).

“We do 60 VfM studies across Central Government every year and generally report across a number of things - mainly economy, effectiveness and efficiency in the way that Central Government money has been spent” (auditor / National Audit Office).

From the above comments, it may be deduced that auditors recognise their pivotal role to be that of expressing judgment, through their reports, about the adequacy of audited bodies’ arrangements to secure economic, efficient and effective use of public resources. The auditors must subsequently confirm, in their report’s conclusion, whether or not they are satisfied with the audited bodies’ overall arrangements to deliver VfM services. Such conclusions must be based on congruence or disparity between benchmark roles and clients’ actual practice. Areas for improvement must then be identified by the auditors, alongside recommendations to achieve such improvements.

In addition, external VfM auditors recognised the extent to which they can provide an
audited body with practical guidance to rectify a specific problem and improve performance. Auditors argued that they cannot interfere directly in the audited body’s method of tackling problems. Rather auditors may encourage their client either to consult another similar audited body which had faced similar problems, or to consult information published by the regulatory body, i.e., the Audit Commission.

“We should not interfere in the way they implement our recommendations, we assess whether they are delivering economic, efficient and effective services, and then suggest recommendations. It is up to them to apply these recommendations, but we want to see improvement” (auditor / Audit Commission).

The argument put forward by the VfM auditors in relation to their VfM auditing roles is consistent with the roles prescribed for them by official documentation and legislation. In terms of client expectations, Table 2 shows that there was broad client agreement about the roles of the external auditors in relation to the VfM audit. All participants (100 percent) from the Local Government bodies, 83 percent from the NHS bodies, 80 percent from the Police Authority and 67 percent from the Housing Associations, agreed with the auditors about their VfM audit responsibilities. Crucially, however, a significant number of these clients (40 percent from the Local Government authorities, 83 percent from the Housing Associations, 80 percent from the Police Authority and 67 percent from the NHS bodies) argued that for the auditors simply to assess these issues, i.e. economy, efficiency and effectiveness and then identify areas where performance needs to be improved, is not enough to constitute a satisfactory contribution to the audited

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body’s performance improvement. Clients expressing this view (the causes of these variations between respondents are explained in the Discussion and Conclusion Chapter) expected external VfM auditors to carry out a thorough investigation and provide them with concrete and reasonable suggestions on how to remedy problems and improve performance. They (clients who argued that external VfM auditors should suggest solutions to remedy problems) added that the audit process needs to share more knowledge with the audited bodies through the transfer of professional practices between public institutions; without this commitment the process risks becoming irrelevant. They also added that the external VfM auditors are professionals with a wide perspective and practical experience of different organisations in the Public Sector and, because of this rich and extremely useful information, they should share good practice and be allowed to bring some of their own learning into the organisation they audit and then suggest solutions to improve performance. The following respondents elaborate this view:

“I think one of the issues that need to be thought about is whether auditors can move into more of a ‘critical friend’. At the moment I think what they are only allowed to do is make recommendations, they cannot actually suggest solutions, and that is true of the inspectors as well and I am aware that certainly in Local Government there is a feeling now that this is actually only half the picture; these people are going around and looking at many other organisations, they are finding out about different ways of doing things, they have picked up examples of best practice; well why they are not telling us?” (Director of Best Value Performance / Local Government Authority).

“Some of the VfM auditors’ recommendations are not helpful because I have still
got to do a lot of work to turn them into actual actions – they are not actions, they are almost an indicator of strategic focus, that is all they are, they are not telling me what I can be doing differently, or pointing me in the right direction” (Director of performance improvement / Police Authority.

“If we could have more practical solutions, I think that would be helpful, because obviously, all of these people are going round to a whole variety of Housing Associations, big, small, medium ….. they are going to Local Authorities, and they must be gaining lots of experience, so why not share it?” (Director of Housing).

A closer examination of these comments reveals that a sizeable proportion of the clients interviewed do not deny the remits of the external auditors in regard to their being tasked to report on the economy, efficiency and effectiveness of the use of public resources by the public organisations. However, the majority of clients would like the external auditors to help them turn the VfM audit recommendations into actions.

Mindful of their official VfM audit remit (see section 22, Code of Audit Practice – 2005) all interviewed auditors argued that their VfM audit role should not include providing their clients with consultancy services, including considering the appropriateness of their clients’ arrangements to improve performance in areas previously recommended by auditors. All the auditors interviewed described client expectations of this order as being unreasonable. Moreover, auditors, insisted that, to be involved in such activities could compromise their independence and their capability to work freely and objectively, due to the potential conflict between, i) suggesting solutions and, ii) assessing their
implementation. As Assiri (1998) suggests, designing, installing and operating systems do not fall within the remit of an audit; involving auditors in these activities is more likely to risk conflict.

The data analysed in this section shows, from both the auditor and the client viewpoint, the expected roles of the external auditors in relation to the VfM audit. Following Porter’s (1993) definition of the audit expectations gap (see section 2.5), the data indicates no significant audit expectations gap between auditors and clients regarding the auditors’ duties to assess the economy, efficiency and effectiveness factors. There was a general agreement between both parties about the auditors’ merit to assess these factors. Nevertheless, what does emerge is the existence of a ‘reasonableness’ gap between auditors and clients. A considerable number of the clients interviewed, particularly from the Police Authorities and Housing Associations, expect the external VfM auditors to work with them in implementing some solutions to remedy problems and improve performance. Although the auditors are well aware of their officially defined role as set out in Government documents, they do not recognise such client expectations as reasonable. Consistent with Morin (2003), auditors interviewed argued that, should they become overtly involved in providing clients with this kind of practical assistance their independence might be compromised.

The next section examines how auditors and their clients perceive both the VfM auditors’ roles and the utility of the VfM audit.
5.3. Audit perceptions gap

Having investigated the existence of audit expectations gaps between the external VfM auditors and the clients in the UK Public Sector, this section provides empirical data in regard to auditor and clients perceptions of how the VfM audit’s performance contributes to improving the audited bodies’ performance.

As mentioned in the earlier discussion of the role theory, role perceptions refer to the actual role performed by the occupant of a given position. This section provides results of the analysis of responses about perceptions of VfM auditors’ roles and the VfM audit’s usefulness in improving UK Public Sector performance. Five audit concepts, i.e. auditor competence, audit materiality, audit evidence, true and fair view, and performance audit, have been examined in this study. Each of these audit concepts is discussed below. The broad aim is to reveal the existence of, and to account for, an audit performance perception gap between the auditors and the clients. Table 3 presents participants perceptions about the concepts mentioned above.
Chapter Five: External auditor - perceptions and expectations of VfM audit roles

Table 3: Interviewees’ perceptions of the VFM

<table>
<thead>
<tr>
<th>Assertions</th>
<th>Auditors</th>
<th>Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NAO</td>
<td>AC</td>
</tr>
<tr>
<td>Auditors Competence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- auditors have relevant skills and experience.</td>
<td>100%</td>
<td>50%</td>
</tr>
<tr>
<td>- auditors have sufficient understanding of Public Sector business.</td>
<td>100%</td>
<td>50%</td>
</tr>
<tr>
<td>- auditors ability to assess economy and efficiency</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>- auditors ability to balance the assessment of the 3Es</td>
<td>100%</td>
<td>50%</td>
</tr>
<tr>
<td>Materiality of VFM reports.</td>
<td></td>
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<tr>
<td>- VFM reports provide sufficient level of assurance.</td>
<td>100%</td>
<td>50%</td>
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<td>- VFM reports add value to audited bodies.</td>
<td>100%</td>
<td>50%</td>
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<td>True and fair view</td>
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<tr>
<td>- VFM reports represent the underlying reality of the audited body.</td>
<td>100%</td>
<td>50%</td>
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<td>VFM audit evidence.</td>
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<td>- VFM auditors base their assessment on sufficient evidence.</td>
<td>100%</td>
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<td>Performance audit</td>
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<td>- VFM audit has been perceived as controlling process.</td>
<td>100%</td>
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<td>- VFM audit has been perceived as improvement process.</td>
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Key to Table 3:
NAO- National Audit Office. AC- Audit Commission.
PAF- Private Accounting Firms. LG- Local Government Authorities.
HA- Housing Associations. PA- Police Authorities.
NHS-National Health Service.

5.3.1. Perceptions of VfM auditors’ competence

Gaver and Paterson (2007) suggest that competent auditors are likely to have great influence on their clients and provide them with a good quality audit because of the
probability that they will uncover misstatements among an organisation’s financial statements. According to Flint (1988), auditing is intellectually demanding, requiring a trained mind and the capacity to exercise professional judgments. Hence, a competent auditor must have both sufficient knowledge and skills, which are the product of education, training and experience. In the context of the VfM audit the concept ‘auditor competence’ is more complicated than when it is used in the financial audit, because auditors have to assess the performance of the audited bodies and make firm conclusions on their economy, efficiency and effectiveness of managing their resources. This type of assessment presents more challenges to the auditors, since it involves a high level of subjectivity. As such, VfM auditors need to be more competent on non-financial performance measures than their financial auditor colleagues (Chowdhury et al., 2005). For example, to assess the adequacy of fixed assets, or to make inventory valuations, are completely different from assessing whether a Police Authority or a hospital is delivering VfM services. The former valuations are based on clear-cut procedures, while the VfM assessment involves a considerable level of subjective judgment from the auditors.

VfM auditors are required to assess the audited body’s economy, efficiency and effectiveness in using public resources. The assessment of economy and efficiency is usually based on quantitative measures. To assess economy, auditors examine the cost of public resource acquisitions, while efficiency is assessed by comparing inputs with outputs (e.g. comparing the number of doctors in a hospital ward with the number of patients that have been treated in that ward). Effectiveness, however, is more difficult to assess, since auditors must consider output quality, as well as considering whether the audited bodies have achieved those objectives for which public funds have been used.
All elements must be considered simultaneously in order to evaluate the audited bodies' delivery of VfM services.

From this it may be deduced that auditors need particular skills, (e.g. skills to assess the quality of public services) as well as sufficient Public Sector experience to be able to balance these three elements in their assessment. Not only must auditors possess skills and expertise vastly different from those needed to undertake a purely financially-based audit, they must also understand, to a considerable degree, the nature of Public Sector activities.

In highlighting the importance of the auditors’ skills and experience, an auditor from a private accounting firm asserts:

“From a Public Sector audit point of view, in addition to all of the operating standards that we work to, we then need to comply with the Audit Commission standards and then outside of that is also the regulatory framework from the Government point of view. So I think the standards are there. Where you may get sort of variations, as you do in all walks of life, is with individuals’ particular skill-sets coming through” (auditor/a private accounting firm).

This study, therefore, examines external VfM auditor competence by asking the auditors and the clients to express their perceptions of the auditors’ skills and experience, to share their understanding of the Public Sector business and to indicate their ability to keep a balance between their assessment of the economy, efficiency and effectiveness.
Table 3 presents a mixed picture in regard to the issues mentioned above. The majority of the auditors interviewed perceive that VfM auditors are competent to undertake a VfM audit. Variations, however, do occur, both between the three groups of auditors and between the auditors and the clients. These variations are mainly due to the differences between a VfM audit and a financial audit. This substantial difference supports Power’s (1997) argument in relation to the emergence of different types of audit. Power argues that an audit has become a constitutive principle of social organisation. He adds that, in addition to the financial audit, many other types of audit exist. To date these are: environmental audit, management audit, quality audit, forensic audit, data audit, intellectual property audits, medical audit and VfM audit. Based on Power’s (1997) argument, and on variations among participant responses regarding auditor competence to undertake a VfM audit, it could be suggested that neither auditors’ roles, nor the nature of the audited bodies’ business, are monolithic entities and that, by extension, the fact that groups of auditors possess a wide range of skills and experience in one type of audit does not make them competent to undertake absolutely any type of audit.

A case in point is the appropriateness of VfM auditors’ actual skills, experience and understanding of Public Sector organisations’ business for proper VfM auditing. Responses collected in this study show that, whereas all of the NAO auditors perceive VfM auditors to have the relevant skills and experience, a sufficient understanding of Public Sector business and the ability, while assessing, to balance the three key elements of economy, efficiency and effectiveness, only 77 percent of private accounting firm auditors supported the view that VfM auditors have sufficient skills and experience, while just 69 percent in this private accounting firm category believe that auditors have a sufficient level of understanding of Public Sector organisations’ business. A large
variation occurred between auditors from private accounting firms in relation to their perceptions of their own competence to balance economy, efficiency and effectiveness. Whereas 85 percent of them assert that they are competent to assess economy and efficiency, only 46 percent were convinced that they are competent to assess effectiveness. Two of the auditors interviewed commented as follows:

“I would say the majority of the firms - and again it will vary by region - but in the firms we have, there is probably a much narrower skill-base because we just do not have the number of people to be able to comment on effectiveness as effectively as we do on the other two things. So I would say that out of the three, effectiveness is the one where there probably is the biggest gap between what the body want and what the auditors will provide” (auditor/private accounting firm).

“There is some tension and conflicts which make it quite a challenging process to undertake and inevitably therefore I do not think people are up to doing that so I think there is a mixed picture in terms of skills and abilities, so some are and some are not” (auditor / private accounting firm).

In addition, some auditors from the private accounting firms argued that this type of assessment (effectiveness) should be carried out by bodies such as the Health Care Commission in the NHS or in-house auditors from the Audit Commission or the National Audit Office who have worked in the Public Sector organisations before starting their career as VfM auditors. Such professionals are likely to have sufficient technical skills and experience to assess effectiveness. As auditors observe:
“The Audit Commission in particular has got large teams of performance specialists and they recruit a lot of specialist and senior people who have worked previously in the NHS and Local Government and, I think these people, because they are not audit-trained, they are professionals who worked in the services, bring a lot of skills and experience to the Table, which is very valuable” (auditor / private accounting firm).

“I think we do look at efficiency ..... we are reasonably competent looking at efficiency, but no, not effectiveness. I think, in Health for example ..... it is entirely appropriate that the Healthcare Commission is responsible for assessing effectiveness of those arrangements, they are looking at quality” (auditor / private accounting firm).

Auditors interviewed from the Audit Commission expressed similar views to those given by the auditors interviewed at private accounting firms. Although all the participants (100 percent) from the Audit Commission were convinced of the auditors’ ability to assess economy and efficiency, only 50 percent of them gave credit to external VfM auditors on their ability to assess effectiveness. They argued that the current auditors almost always come from a financial audit background and do not have enough understanding of Public Sector business (50 percent of participants from the AC perceived this lack of understanding). Consequently, the Audit Commission auditors maintain that the financial background of such auditors will influence, to some degree, their assessment of effectiveness, as these responses make plain:

“Most of auditors have a financial background. It has a profound influence on
assessing quality, because they always want to measure quality in a very hard way, they do not understand the ‘soft side’ of public service” (auditor / Audit Commission).

In contrast, auditors interviewed from the NAO expressed a markedly different view about their own competence to carry out a VfM audit, as an auditor from the NAO asserts:

“We have networks of people who are experts, say economists, or people who are experts in regulation, or people who are experts in project management …. people who are expert statisticians, and so I think continually we all try to make sure we have the right skill-set, so that we can do VfM work and keep up-to-date with developments” (auditor / NAO).

A critical review of those auditors’ comments cited so far indicates that auditors interviewed from the NAO showed more confidence in carrying out the VfM audit. They insisted that they have all types of experts they may need to assess the three VfM elements, i.e., economy, efficiency and effectiveness. However, a significant number of auditors interviewed from the AC and private sector accounting firms were not convinced of their ability to assess effectiveness.

This result, in regard to VfM auditor competence from the three auditing bodies involved in this research, is consistent with the findings of Pendlebury and Shereim (1990) who examined the attitudes of auditors from the NAO, AC and from private accounting firms in relation to the assessment of effectiveness. Their study revealed that the NAO auditors
judged themselves to be the most important group in evaluating effectiveness, while auditors from the AC and private accounting firms were slightly more diffident in this regard. The latter were prepared to deem that specialists and managers in the services department would be more appropriate than themselves in the evaluation of effectiveness.

Considering this variation in responses between Audit Commission and National Audit Office participants it must be remembered that the NAO is a big organisation with access to all Central Government departments and which chiefly examines, on behalf of Parliament, issues pertaining to public departments’ expenditure of public resources and thus, their delivery of VfM services. The NAO also carries VfM studies on a national – and, therefore, much larger scale than the studies carried out by other audit bodies. Being thus distinct from the other audit bodies, in terms of their studies’ importance and the high profile of their audience (e.g. Parliament Members), they enjoy a full range of good quality resources and skills which enable them to carry out most of their VfM studies by a trained in-house staff. In contrast, the Audit Commission relies, for most of their VfM studies, on auditors from private accounting firms. Significantly in such firms, only 46 percent of the participants interviewed expressed confidence in their ability to assess effectiveness.

Unlike the majority of auditor participants who perceive that the external VfM auditors are competent to undertake a proper VfM audit, most of the clients interviewed emphatically differ in their views. The most significant discrepancies between the two parties occurred in relation to auditor understanding of the nature of services provided by the Public Sector organisations and their ability to assess effectiveness, as the following
client comments illustrate:

“My concern would be that they do not necessarily have the relevant industry knowledge. They do not necessarily understand what a property function is trying to achieve. They are very good at being able to identify whether our current procedures are being followed or not followed in the appropriate manner and identifying where there are variations as to what is perceived to have been the way things should have been carried out, and they are very thorough and good at that” (client / Housing Association).

Another interviewee from the Police Authority notes: “My concern about external auditors is that they do not necessarily understand the business that we are in – and what those different facets of delivery are” (client / Police Authority).

These two comments show that concerns about the external VfM auditors’ competence to carry out the VfM audit stem from a lack of auditor knowledge and understanding of the nature of public organisations’ business and these organisations’ objectives. This view is supported by the summary of the findings shown in Table 3. The Table shows that, despite all respondents working for public services, there is a significant variation in their answers. Among the respondents canvassed from these Local Government bodies, 83 percent of the Housing Associations, 60 percent of the Police Authority and only 33 percent of the NHS bodies perceive that the VfM auditors have relevant skills and experience, but nevertheless, they were quick to point out that these auditors do not have a sufficient understanding of Public Sector business. The significant variation of perceptions on this issue (auditors’ understanding of Public Sector business) occurred
between auditor and client from the Police Authority with (20 percent) slightly more than their counterparts (17 percent) from the Housing Associations and the NHS bodies.

In view of these variations, it could be suggested that, unlike the Private Sector businesses where the success of outcomes could be judged mainly on the sole criteria of ‘profitability’, the outcomes of the Public Sector organisations should fulfil, alongside financial issues (e.g. financial saving), the social and emotional needs of the Public. The analysis reveals that there are tangible and intangible values within the Public Sector profession. The tangible values are explicit and can thus be encapsulated and understood by the external auditors who are looking at things from a business point of view and base their judgments on ‘hard evidence’. Examples of such apparently hard evidence include the assessment of a hospital ward’s performance, on the grounds of the number of patients dealt with as compared to the number of nurses in that ward, and the number of crimes which have been detected compared to the number of the police officers involved. However, there are also undeniable, intangible and implicit values which, being emotionally-related, are important to the Public regardless of cost. These values, including the emotional interests of the patients, their need for care, and the Publics’ need to feel safe, could never be captured by looking at hard evidence. Clients argue that such values are far more difficult to be understood by these auditors, who are mainly trained as accountants, and who consider things from a purely financial viewpoint. They also add that this lack of understanding, particularly in relation to intangible values, would be reflected in the auditor assessment of effectiveness. The following clients’ comments exemplify this view:

“It is an issue when you have got auditors who are all from an accountancy background, because unless you have been caring for patients, either in a home setting or in a hospital, you have got no concept of what it is actually like to look
after a human being who has a number of needs, and you cannot talk about that individual as an amount of money. I keep myself grounded by spending time in clinical area and I often have to remind people with a financial background of what it actually means to the actual patient; and I do not think auditors have that understanding. It would benefit people to come and spend some time seeing what is actually involved in caring for patients” (client / NHS).

“In terms of Value for Money, it is a huge judgement call because when someone reports a crime, what we would say is: from our confidence and satisfaction data we do hugely better when we go and see people 'in person', rather than dealing with it on the telephone. So, when we are measuring our effectiveness and efficiency, if we were to measure it just in terms of what does it cost to do that investigation, and our only measure was the output of whether you found the person who did it or not, then you would go down the telephone route. If your measure is ‘have you satisfied the Public?’ you would go down the visiting route. And that is where we can get into difficulty with the audit regime, because they would say ‘well it’s cheaper to do it that way.’ Yes it is, but actually it is not what the Public want and that is our customer” (client / Police Authority).

“We could become a lot more efficient in terms of VfM if we were to decide we will no longer deal with the homeless, we are going to deal with families who have been nominated by the local authority and need accommodation rather than people who have been more or less on the street, because evidence suggests they are more likely to look after their property than those who are homeless. But is that what the organisation’s about? No, I do not think it is. So, the focus has been changed by
The comments above highlight both the problematic nature of the VfM audit and the challenge usually experienced by external auditors in attempting to assess effectiveness. The challenge generally arises from the impact of their accountancy experience on the quality of their assessment of effectiveness. It is thus apparent that, for auditors to be competent to undertake the VfM audit, the influence of their financial background on assessing effectiveness must be minimised, since such assessments are in any case inherently subjective. This finding is consistent with Roberts and Politt’s (1994) suggestion that the VfM audit has made an important contribution to public bodies, but with some limitations. These limitations, they comment, stemmed from a preoccupation with financial thinking, a reluctance to offer explicit recommendations to management and oversensitivity to the political culture in which these VfM studies were undertaken.

This client view of public service intangible values, so difficult for the VfM auditors to grasp, is mirrored in their perceptions of the ability of external VfM auditors to assess economy, efficiency and effectiveness. Table 3 reveals that all the participants from the Local Government, 80 percent of the participants from the Police Authority, 77 percent from the NHS bodies and 50 percent of the participants from the Housing Associations were convinced of the external VfM auditors’ ability to accurately assess the aspects of economy and efficiency. However, the same Table indicates that the majority of participants from these four Public Sector bodies have doubts about the auditors’ ability to assess effectiveness.
5.3.2. Perceptions of the materiality of VfM reports

Materiality, according to the Financial Accounting Standards Board (FASB), is ‘the magnitude of an omission or misstatement that, in the context of surrounding circumstances would influence the judgment of a reasonable financial statement user’ (cited in Daniker, 1994:2). The scope of the word ‘materiality’ in the Public Sector audit is wider than its application to the Private Sector since it includes, in addition to an opinion on financial issues and the adequacy of internal control, opinions on whether Public Sector bodies complied with the laws and regulations, whether they managed public resources economically and efficiently and whether they achieved their desired objectives. In relation to audit materiality in the Public Sector, Jones and Bates (1990) suggested that VfM auditors should take into consideration the level of assurance required by the users of the VfM audit reports on the issue of whether the taxpayers’ money has been spent wisely.

In accordance with Katz and Kahn’s (1978) role taking process, it could be suggested that the VfM audit implies an interaction between the auditors and the clients. It also constitutes an attempt by the auditors to influence the clients’ attitudes in terms of the way they manage public resources. In carrying out VfM studies, the auditors examine the evidence provided by the clients, then present their findings and identify areas where performance needs to be improved before finally providing the clients with recommendations. Client implementation of these recommendations depends on the materiality of the auditors’ findings and on the value added by these recommendations to the audited bodies. In addition, the VfM audit incurs costs which are usually met by the audited bodies. Moreover, the audited body's staff must devote considerable time to
preparing enough evidence for audit. The present study of the VfM audit's materiality is predicated on all of these assumptions.

Participants were asked about their perceptions of the materiality of external VfM auditor recommendations, and in particular whether these recommendations have added value to the audited bodies. Table 3 shows that there is a significant difference in views between auditors and clients in this regard. Among the auditors interviewed there was almost a consensus about the benefit of their assessment; with all those at the NAO, 50 percent from the AC and 85 percent from the private accounting firms arguing that their assessment creates a substantial amount of value because of the auditors’ ability to bring an external and a wider perspective to the audited bodies. They added that, if the audited body work on their own, their perspective of the nature of activities within their own public service bodies is likely to be limited and that the VfM assessment enables a comparison with other bodies and the transfer of good practice from one body to another, as the following comment by an auditor illustrates:

“Professionals in any area have an awful lot of detailed technical operating knowledge which they are living with day-in-day-out; but that also brings the risk of creating a mind-set of ‘this is the way it has been always done and that is the way it should always be done’. So I think VfM audit has that potential to actually sort of challenge and almost compare different organisations within an area and look at that approach accordingly. So I think it provides a healthy challenge” (auditor / private accounting firm).

Auditors were also emphatic about the VfM audit's benefits. The VfM audit is an
appropriate addition to a financial audit since the former considers whether an organisation has set up proper business plans and whether that organisation is monitoring key performance indicators against particular benchmarks (e.g. official VfM auditors’ roles), while the latter assesses issues related to financial management and financial planning. Thus, the majority of auditors interviewed were speaking in extremely positive terms about the operational and financial benefit gained from their recommendations by the audited bodies, particularly when the audited bodies identify weakness in some of their departments and recognise the need for external and independent view. As one auditor contends:

“We did a piece of work recently in a large hospital trust looking at a pathology department which really had very little performance information and nobody could tell what was going on. There were issues about service quality and people were asking for pathology tests claiming that it takes longer than they would want. So, we did work with the clinicians and helped them to produce their own suite of performance indicators because they had not got any before, so we helped them to save money and create a better performance management framework” (auditor / private accounting firm).

However, this perception has been disputed by 50 percent of the auditors interviewed from the Audit Commission and a smaller portion (15 percent) of participants from the private accounting firms. These auditors perceive that their assessments, in terms of VfM, are more beneficial to the Audit Commission for the purposes of the AC’s national report and own performance record than of practical use to the audited organisations. This argument was made on the basis that auditors apply universal, standardised roles (e.g., roles set-up by the regulators) indiscriminately to all audited bodies, as this
Chapter Five: External auditor - perceptions and expectations of VfM audit roles

interviewee argues:

“Sometimes I feel that we are more beneficial to the Audit Commission to do [their] national report than to the audited bodies, and I think that is often around how tailored those roles are to the individual organisation, and I think, when we are putting forward our plans and discussing with the audited bodies the work that we may do, they are generally keen on doing some of those reviews because they do not see the value to them as an organisation” (auditor / private accounting firm).

In addition, these auditors (50 percent from the Audit Commission and 15 percent from the private accounting firms) criticise the volume of the VfM audit, believing that the timescale usually given to the audited bodies to apply VfM audit recommendations is insufficient to ensure the most possible outcomes, a fact which consequently affects the value added aspect of their recommendations and the spirit of the VfM audit. These auditors added that the audited bodies are generally quite receptive and keen to learn and improve, but because of these reservations the audited bodies do not view the auditor recommendations as something exciting which they might benefit from to improve performance. Instead they deal with the whole process in a rather perfunctory manner. One auditor states:

“I think the system is starting to change but I think it is still a long way off, so they have talked about reducing the number of targets, for example, for Local Authorities by something like 200 or 300 targets that Local Authorities have to report on, it will be slimmed down significantly, but that has not happened yet and therefore they are still going through this test of lots of audits, lots of reporting to Government, lots of targets and I think some of them are just feeling overwhelmed
by that and it is not making a difference in practice, so they are just doing it because they have got to do it as opposed to really helping them to move forward” (auditor / private accounting firm).

Unlike the majority of the auditors who perceive that the VfM audit’s findings and recommendations are material, 60 percent of the respondents from the Local Government bodies, 33 percent of the respondents from both the Housing Associations and NHS bodies and only 20 percent from the Police Authority share this view. The empirical data presented in this study convincingly suggests the reason for this disagreement to be the external VfM auditors' lack of practical, operational knowledge of the audited bodies' chief activities.

This absence of close client observation is evident in the clients' own views about the VfM's inaccurate emphasis. Furthermore, the majority of client participants cite materiality issues in the auditor assessments of client compliance with regulations, accurate and truthful communication and service delivery. Clients also questioned the auditors' competence to discuss procurement issues. This last question, clients maintain, is crucial, both to the organisation itself, and to the lives of public service users. One senior client noted in this regard:

“I perceive that, if they want to know whether for example, all our properties which have gas, had gas service carried out within 12 months then they are very good at trawling through the records to see whether that was carried out or not. When they then come to discuss whether the way we procured that gas servicing contract is providing VfM for the association, then I would argue that their
knowledge is perhaps not as in depth as it might be” (client / Director of Housing).

These clients, who are not convinced of the materiality of the VfM audit, added that the VfM auditors focus almost exclusively on the efficiency side of their assessment, and do not have the ability to move from the financial focus to become business enablers. Moreover, they claim that when the auditor reports are published they are more likely to be impractical and irrelevant to the subjective values of the clients’ performance. For instance, a head of quality performance in a Local Government Authority commented that the VfM audit had lost its materiality through its focus on simple and easily quantifiable issues, while avoiding the discussion of those areas which have a considerable impact on the quality of the service outcomes:

“I think the stark bit, I would say is: in terms of VfM audit we 'counted bins', but we did not say where was best to put our 'bins'. And, we looked at a process that said ‘what is the best way to run that process?’ instead of questioning whether or not the process was good in the first place. That is a very stark difference and, in my view, that is where the VfM audit went wrong. It gave us a whole series of measures and said ‘you will be measured against this’; it did not say ‘is that the right measure in the first place?’ ” (client / Local Government).

A director of nursing in a hospital emphasised the VfM auditors’ willingness to focus more on those issues which could be measured in monetary terms, and their refusal to engage with subjective issues, saying:

“They basically just wanted to do a number exercise, saying ‘well some of the
surrounding hospitals have this number of nurses in these specialties, how many have you got?’ And actually a specialist nurse role varies tremendously from one organisation to another, so just doing a number exercise is meaningless” (client / NHS).

In regard to the VfM audit’s own cost-effectiveness, clients argued that the process is expensive and time consuming since it involves clients dedicating a lot of staff time to accumulating evidence for the auditors to assess. They added that materiality, in terms of the value added to the audited bodies, does not always outweigh the financial and time costs:

“They do work more or less throughout the year, so having signed off the account and issued their report, our members will immediately start planning next year’s audit. So it feels like a lot, they are not here all the time but it just feels that they are here most of the time. You have to question whether we get value out of them for what they do, you know the fees for external audit are £100,000 and most members would probably say we do not get a lot of value for that; £100,000 is an awful lot of money” (client / Police Authority).

In short, there are significant differences in auditor and client perception on the materiality of the VfM audit as regards its findings and recommendations. However, the analysis reveals that there are two types of materiality which could be claimed by external VfM auditors; the first is explicit, and could be judged through the visible value added through their assessment to the audited bodies, for example, minimising the cost of public services or improving the quality of these services. The second type of VfM
audit materiality is implicit and invisible, and consists of the level of assurance provided by their assessment, since they are an independent body, to both the Public at large and to the senior management in the audited bodies themselves.

For example, although, the majority of the clients were not convinced that the value added by the VfM audit is cost-effective, Table 3 shows that a significant number of the respondents were convinced of the level of assurance provided by the VfM auditors. They argued that this assurance could be provided to both the Public and to the audited bodies themselves.

In relation to public perceptions, respondents argued that the Public is aware that huge amounts of public resources are offered to Public Sector institutions each year in order to improve their performance and deliver VfM services. Furthermore, they maintained that the Public always questions the management of these resources. Respondents expressing such a view argued that this is where the materiality of the external VfM auditors can be located, and added that, since the VfM audit bodies are independent organisations, the Public is likely to put more faith in such an independent assessment rather than on the audited bodies themselves, as commented below:

“In the general sense, there is a focus on VfM and on the performance within the Public organisations and it is important that the Public understand that and believe it. It is very easy for us to say we are doing well but, it is much harder to convince the Public that we are doing so. Therefore, it is helpful when auditors, as independent assessors, confirm that and give that assurance to the Public. Hence, it does aid accountability” (client / Police Authority).
With respect to the level of assurance provided to the audited bodies, Table 3 shows that a significant number of the clients interviewed argued that VfM audit reports provide some level of assurance to the senior management and the Trust Boards, demonstrating that an independent party has examined the evidence and confirmed that the executive level processes are in place and the system is fairly robust in the areas which have been examined. In addition, clients in favour of the materiality of the VfM audit’s findings and recommendations argued that, even when they are sometimes familiar with the auditors’ recommendations and have already planned to consider them without their being highlighted by the auditors, they still believe that these recommendations reassured the clients that their activities were progressing as they should. The comment from the Director of a quality performance department in a Police Authority highlights the VfM’s importance in this regard. While this respondent was adamant that the VfM audit does not present the whole picture of the individual departments in the audited bodies, he still believes in the value of this type of audit in providing reassurance to the public bodies’ that they are focusing on the right areas. As this client affirms:

“What VfM also does is give us a level of reassurance in relation to the audit that we are looking at right sort of areas, but again, the detail is lacking of being able to embed that down to the lowest levels of the organisation” (client / Police Authority).

In short, similar to what Morin (2008) terms the ‘whistle-blower’, the VfM audit has been perceived as a scrutiny tool, which could be used both to alert the public audited bodies' management, and to encourage them to review their conduct and improve performance. It has additionally been perceived as a scrutiny tool, which could be used
to convince the provider of public resources and the general public that public resources have been managed wisely.

5.3.3. **Perceptions of the VfM audit evidence and the true and fair view of the VfM audit reports**

In the Public Sector audit, the concept ‘true and fair view’ is similar to that occurring in the Private Sector, since the auditors in both sectors are required to ensure that the management of the audited bodies are communicating information to the users which represents the underlying reality of the audited organisations. Unlike the Private Sector, auditors in the Public Sector have to report on the management performance by assessing the three VfM elements (economy, efficiency and effectiveness) (Chowdhury et al, 2005).

This section provides empirical data on whether respondents perceive that VfM audit reports represent the reality of the audited bodies’ performance and the extent to which such reports are informed by evidence provided by the audited bodies. Table 3 shows that almost all the respondents from the Audit Commission and the National Audit Office and 92 percent of the respondents from the private accounting firms perceive the audited bodies to be cooperative and the evidence they provide to be sufficient for the auditors to undertake the VfM audit assessment and provide reports which represent the truth and fairness of the audited bodies’ affairs. The majority of client respondents expressed a similar view. Nonetheless, the Table indicates a significant difference in perceptions between the auditors themselves and between the auditors and the clients on issues relating to the truth and fairness of the VfM audit reports.
Almost all the respondents from the National Audit Office, 69 percent of the respondents from the private accounting firms and 50 percent of the respondents from the Audit Commission, perceive that the VfM audit reports represent a true and fair view of the audited bodies’ performance. Auditor respondents who disagree on these issues invoke the following three main reasons:

- The timescale usually given to the audited bodies properly to implement auditor recommendations is insufficient, so the audited bodies, hoping to be seen to have kept up with the required pace before the following audit session, make fast and superficial changes, but achieve no real and lasting improvement.
- The budgets allocated to the VfM audit by the audited bodies do not usually allow for sufficient time to scrutinise individual departments in order to provide a clear and realistic picture of these departments’ activities.
- The lack of specialist auditors possessing a similar degree of sector knowledge, particularly in the technical areas, as those specialists working in the audited bodies.

The following auditor response demonstrates this view:

“I think we still need to do the overall picture because we sign an opinion on that. But I think we could probably ‘drill down’ more in some areas. The problem with that is fitting it within the fees that we have got, and it may mean additional fees for the organisation which then calls into question whether they are achieving VfM by paying us more” (auditor / private accounting firm).

This argument put forward by auditors who disagree that the VfM audit reports represent
the true and fair view of the audited bodies’ performance was supported by the majority of the respondents from the clients group, particularly those from the Housing Associations, NHS bodies and the Police Authority. Table 3 shows that, whereas 60 percent of the respondents from the Local Government authorities were convinced that the VfM audit reports reflect a true and fair view of their organisations’ performance, only 40 percent of the respondents from the Police Authority and 17 percent of the respondents from both the Housing Associations and the NHS bodies share this opinion. Respondents from the clients group who have reservations on the issue of a true and fair view argued that most of the auditors are not specialists and do not have enough knowledge of the audited bodies’ profession. It is, therefore, easy for the clients to mislead them and make them feel that the clients have certain things in place while in reality this is not the case. In addition, clients argued that the auditors do not always have enough time, either to go through the whole evidence provided by the audited bodies or to report a true and fair picture of the audited bodies’ performance. Instead, these clients maintain, the auditors usually accelerate the process to meet specific targets (e.g. when the auditors are required to carry out a specific number of VfM studies during a determined period of time) set by the regulatory bodies, whereas the emphasis should be on the quality of the outcomes. As a client reasons:

“How they can assess our performance in three days? If I want to hide the fact that we are not performing as well as we say we are then I think it would be pretty easy to do so. Therefore, I think we can steer it in a particular direction or to particular staff or services and then hide the rest. And unless you have got someone who is very clued-up from the organisation, they are not necessarily going to see it and I think that has been demonstrated by the failures” (client / Housing Association).
Clients added that, because of these time limitations, the auditors practically ‘skim across the top’ of the audited bodies, interviewing members at a senior and strategic level, such as senior managers, directors of finance and superintendents. However, the views of those working at the operational level and who know the real, front-line nature of public services, are usually ignored. As a result, the auditors’ findings rarely represented the reality of individual departments.

The data analysed above, concerning the time limitations for both the auditors and the clients, indicates the existence of an audit overload in the UK Public Sector. This audit overload, according to both the auditor and client perspectives, exerts a considerably negative impact on the true and fair view and on the materiality elements of the VfM audit reports. As commented by a director of nursing in a hospital:

“I mean the constraints are usually about time. You know, I do not really have the time to sit around looking at endless reports that come in and challenging them, you get so many of them, whether it’s from Central Government or a strategic health authority, or professional organisations, that you could spend your time just doing that. You have to choose what you think is important” (client / NHS).

As a result of these findings, it appears logical to conclude that the existence of an effective scrutiny system to improve performance in the UK Public Sector should not be taken for granted if there is a high volume of VfM audit sessions. One may also deduce that focusing on the quality of the outcomes, rather than on the quantity of the VfM audit, is likely to improve the effectiveness of the VfM audit, in terms of its capacity to hold clients accountable for the use of public resources, to change the image of the
clients about this type of audit, and to provide the Public and regulatory bodies with a real assurance, based on reports, which represent the true and fair view of the audited bodies. These findings accord, more or less, with those reached by Bowerman, Raby and Humphrey (2000) on the growth of different audit activities in three major public service organisations in the UK Public Sector, namely, Healthcare, the Police Authority and Schools. According to Bowerman et al. (2000), there was an indication of the growth of different audit activities (inspection and self-assessment) and a proliferation of audit bodies, but with a considerable variation in the degree and application of audit activities and a limited degree of audit integration between these audit bodies in the three Public Sector organisations.

In addition to the respondents’ reservations on the time limitations, clients who have reservations on the issue of a true and fair view also argued that auditors normally compare Public Sector peer organisations for performance evaluation. Usually an organisation is selected because it is seen as the most cost-effective and can thus be used as a denominator for other organisations. These clients argued that this sort of comparison should be carried out only with extreme caution, comparing exclusively those organisations which share significant commonalities. They argued that one size of the VfM audit does not fit all public organisations since each organisation has different circumstances and lesser or greater access to resources through research and various other pathways. As a result this organisation, which has been used as a denominator, tends to have a much higher ratio of trained professional staff, who are able to deliver better services. They added that the auditors should be authorised to adapt the VfM audit roles to the context and circumstances of each organisation, and only then participate in finding and implementing solutions.
“I think it has got to come from a high level. It has got to be built-in flexibility so that the auditors or inspectors could take on board the particular reasons why organisations operate in a certain way, rather than expecting everybody to be operating in the same way right across the country” (client / Housing Association).

Likewise, when comparing peer organisations, clients who have reservation on the issue of a true and fair view argue that the performance indicators, usually employed by the auditors as benchmarks to assess the audited bodies’ performance and looming large in influencing the auditor’s outlook, have been imposed nationally. They added that these benchmarks do not always recognise the diversity of the audited bodies’ business and also do not take into consideration the audited bodies’ views of what they should be doing locally. Moreover, according to these clients’ perspective; auditors do not have an enough degree of flexibility to adapt these benchmarks to their organisational circumstances. Thus, according to these clients’ perspective, accepting the exact auditor feedback is problematic, due to the likely invalidity of audit reports which do not accurately represent the reality of the audited bodies’ performance.

5.3.4. Performance audit

The broad aim of the audit process is to improve the audited body’s performance. This section is concerned with providing empirical data to demonstrate how auditors and the clients in the UK Public Sector perceive the role of the VfM audit in improving performance in public institutions. Percy (2001) argues that Public Sector auditors should carry out their work, not only to maintain confidence in Public Sector spending,
but also to add value and to achieve performance improvement in the audited bodies. This highlights the presence of the VfM auditors’ roles to facilitate improved performance in addition to their controlling, or confirmatory, roles.

Section 35 of the Code of Audit Practice – 2005 for Local Government bodies states that:

“auditors should report to the audited body in such a way as to enable its members or officers to understand (1) the nature and scope of the audit work (2) any significant issues arising from auditor’s work (3) the nature and grounds for any concerns they have; and (4) where appropriate, any action that needs to be taken by the audited body to secure improvement” (Audit Commission, 2005).

This contribution to improvement (Code of Audit Practice, 2005, section 36) could be achieved by working with the audited body according to the following guidelines:

- To be specific about what action the audited body could consider taking;
- To be useful, practicable and based on assessment of the benefits to the audited body of implementing them;
- To take account of implementation costs and where these are likely to be significant, to report this fact.

Respondents were asked to express their perspectives about the whole process of the VfM audit, including whether they viewed such an audit system as a controlling or an improving process. Table 3 reveals that all the auditor respondents from the NAO and
the AC and 88 percent of the respondents from the private accounting firms were convinced of the appropriateness of the VfM audit to control and confirm whether the audited bodies adhered to the rules and regulations in managing public resources. This was also the view of all the respondents from the Local Government, 83 percent and 80 percent of the respondents from the NHS bodies and the Police Authority, respectively, and 67 percent of the respondents from Housing Associations. The majority of the respondents from both parties were convinced of the ability of the external VfM auditors to identify where the audited bodies are complying with the procedures and fulfilling the requirements of the regulatory bodies, as elicited in the following comments:

“They are very good at being able to identify whether our current procedures are being followed or not followed in the appropriate manner and identifying where there are variations as to what is perceived to have been the way things should have been carried out, and the auditors are very thorough and good at that” (client / Housing Association).

“My perception of VfM auditors is that they audit against a process generally, so an audit is looking at ‘have you complied with a process, so when I get reports back from auditors, they confirm that we have been telling the truth about what we have said, and the other bit is that we followed the process” (client / Police Authority).

In addition, the present study provides information contrary to the findings of Morin’s (2003) Canadian study, which revealed that the role of controller for VfM auditors is considerably more credible in the audited bodies’ perspective than the role of...
improvement. The present study finds that the majority of the respondents from the audited bodies are still convinced of the roles of the VfM audit to improve performance in the Public Sector institutions, while highlighting the difference between the auditees who share this view and those who believe the VfM audit controlling role to be insignificant.

Table 3 shows that the majority of the respondents from the clients, and some of the auditors, were less than convinced of the auditors’ competence to undertake a proper VfM audit in the light of the materiality of auditors’ findings and the truth and fairness of their reports. In contrast however, the Table also shows that all the respondents from the Local Government bodies (67 percent of the respondents from the NHS bodies and the Housing Associations and 60 percent of the respondents from the Police Authority) perceive that the VfM audit could be appropriate to control and improve the UK Public Sector performance. These Figures show that there is no considerable difference between the clients who uphold the VfM’s controlling roles and those who believe in its improving roles.

On the other hand, the majority of the clients interviewed (supported by some auditors) agree with Morin’s (2003) view that the role of improvement has not yet been internalised by the auditors, and that auditors are not very comfortable with these roles, which contrast with their traditional financially-based approach to auditing. However, those respondents who share this view still believe that the VfM audit has a future in terms of its role in improving Public Sector performance.

In contrast to Power (1994a), who was sceptical about the possible social benefit of
investment in audit services, respondents who supported this type of audit argued that, although the VfM audit did not, from an operational standpoint, make an especially visible contribution to Public Sector performance improvement, it was still able to make an invisible contribution to improved performance. Such respondents are still in favour of investing in the VfM audit process, but with a continual review by the regulatory bodies. When asked about the VfM's contribution, a common response was that it has become more prominent and encouraged the audited bodies' management to see it as a key part of their role. The majority of client interviewees added that it has brought a considerable challenge and become embedded in their organisational worldview to the extent that the organisation's members, particularly at the management level, started to think more widely about their strategies, their objectives and the available options for the delivery of VfM services. These comments illustrate the common responses to the topic:

“It is starting, in terms of its maturity, to increase to the point where people are not simply looking at it as a ‘tick box’. They are looking at it as important scrutiny tool for the survival of the organisation, because we need to demonstrate VfM. It started to make people ask a common question when they have got a project proposal, ‘how does that deliver VfM?’ It becomes more natural and embedded” (client / Police Authority).

“You have always got someone coming to the process with an outside perspective – but actually that is where the value lies because even though you may know your services really very well and you may know your customers very well, you can get into some habits, some ways of seeing things, and it is actually really useful as we have found on a number of occasions to have an external perspective from
someone who said ‘well actually have you thought about doing it like this?’ or, you know, ‘the world has moved on you need to catch up’ sort of thing” (client / Local Government authorities).

“It is not necessarily having the impact it should, I think at least the issue is now very prominent and it is very clear that those key leaders in those organisations see it as a key part of their role so, I think it is much improved in terms of visibility and people actually seeing that this is something that they lead from the top and be very clear and report on regularly so, I think the positive impact audits have had is that people starting to take more ownership of the issue and lead the issue and so if anything, there is a positive impact in that and they are much more accountable than they used to be” (auditor / a private accounting firm).

The primary data reveals clear client participants views on the VfM audit’s capacity to effect significant performance improvement. Interviewee comments indicate three main reasons for the VfM's potential in this regard:

- VfM audit provides audited bodies with some assurance of efficient and effective conduct. Furthermore, when auditors indicate areas for improvement, client action to remedy is triggered.
- VfM audit gives an indication to Public Sector senior management of the whole organisation's performance in specific tasks.
- Since auditors have insight into other organisations' management and delivery of public services, they are likely to bring both an external, independent perspective, and considerable practical experience. Clients may thus assess their own performance in relation to other organisations.
In addition, clients who are in favour of the VfM audit argued that in some organisations, particularly in the Local Government authorities where elections are usually held every year, it is common for these bodies to have short-term objectives which are likely to be politically motivated. They added that the auditors, over time, have helped them to realise the importance of having short, medium and long term objectives. These objectives should be based on clearly defined strategic and operational plans since this will facilitate the assessment of the effectiveness of these organisations in achieving their goals. As commented by a client:

“We always had twelve month objectives because there was always another election coming up and so we would sort of swing one or another, and the inspection helped us to realise that we need longer term objectives” (client / Local Government Authority).

This section presents an analysis to demonstrate the VfM audit's importance as a scrutiny tool in improving performance in the UK Public Sector organisations. It has raised awareness of better methods to provide cost-effective and good quality services. The VfM audit’s status as an appropriate tool initiates from the fact that an independent body’s assessment of its three elements, i.e. economy, efficiency and effectiveness, is the only way to achieve best practice in the delivery of public services and greater transferability of examples of best practice across public bodies. However, the analysis also reveals that Public Sector organisations are continually changing their ways of managing public resources to improve the delivery of VfM services. Hence, in order for the VfM audit to be relevant and adequate in the face of such changes, its roles need to be reviewed and modified continuously.
The analysis in this section also reveals that the clients interviewed understood very well that the resources provided to the public organisations by the Government are limited and they have to make the best use of these resources and convince the auditors, the resource providers and the Public, in general, of their wise conduct. This comment from a head of quality performance at a Police Authority sheds light on UK Government policy towards dedicating a limited budget to each public body and driving these bodies to make the best use of these resources. It also highlights the importance of VfM studies in improving Public Sector performance:

“I think the drive for productivity, if I can put VfM audit in that, is one that we have no option but to do because, at the end of the day there is only so much money to go around in the Public Sector, whether it is the health service, the police, education, transport, environment, whichever bits are all competing for that pot of Government money and, like it or lump it, there is only so much. Therefore, if we want to deliver a service and keep our portion of the money, we have to be seen to be delivering VfM services otherwise, they will cut the service” (client / Police Authority).

This finding is consistent with the findings of Lapsley and Pong (2000) who examined the practice of VfM in Scotland from the point of view of an elite group of auditor members of a professional accounting body’s committee. Their committee has the role of reviewing and commenting on developments in Public Sector audit practice. These expert auditors argued that:

“Among professional groups, there is a greater acceptance of VfM now than there
was two to three years ago. There is still, though, a tendency for accountants to think ‘money savings’ and technical people to think ‘service quality’. The technical people in many cases are better equipped to think about getting the right quality of service at the best possible price” (auditor / a private accounting firm).

However, most clients argued that, for auditors to demonstrate real commitment to improving the VfM audit's image in the eyes of the clients, then the auditors themselves need to improve in fulfilling the roles they are applying.

With regard to auditors, clients argued that they need to familiarise themselves more with the nature of the audited bodies’ business and recognise the difference between assessing the performance in Private Sector organisation, where the main target is to get the most possible profit, and in public organisations where the main objectives are to deliver VfM services and improve public satisfaction.

With respect to the roles applied by the auditors, clients argued that sometimes these roles do not take into consideration organisational differences in terms of objectives, local circumstances and priorities. As a result, it could be concluded that allowing VfM auditors more flexibility to express their professional view, and to adapt the VfM audit roles to the audited bodies’ circumstances, is important for this type of audit to be more effective and relevant and to maximise its contribution in improving performance. In addition, allowing a sufficient level of flexibility to the VfM auditors is likely to help them accommodate the audited bodies’ innovations. As a Director of housing explains:

“The auditors are competent; it is the system that they have to work in which is
very difficult and inflexible. When we had our Audit Commission inspectors last year, their initial report said ‘we are looking for A but we found B’. And we are saying ‘yes, well you found B because we do this in this particular way’. It was not that we were working against the system; we promote a system here that works for our organisation and our end-users, so they really need to be more flexible” (client/Housing Association).

This argument, regarding the importance of allowing a sufficient level of flexibility to the VfM auditors, is once again consistent with Morin’s (2003) Canadian study which examined whether the VfM auditors could be perceived as controllers or catalysts for change and improvement. Morin found that, in order for the auditors to be perceived as able to improve performance, they should envision each VfM audit as a particular case and not standardise their relationships with the audited bodies. He adds that, although the auditors are guided by the philosophy and paradigms of their audit bodies, they should adapt their roles to the context of the audited bodies rather than imposing a predetermined role.

To summarise, this section examines the external VfM auditor and public service client expectations and perceptions of the VfM audit. The focus was on investigating the existence of an audit expectations and perception gaps between the two parties. VfM auditors’ roles, as laid out in official documents, have been used as benchmarks to identify potential gaps. In addition, this section examines five audit concepts in order to investigate audit perception gaps between the auditors and the clients. These concepts are: auditor competence, the materiality of the auditors’ findings, the true and fair view of their reports, audit evidence and performance audit. The result of this examination is
important since it is likely to help the auditors and the clients improve their interactions and communications, which in turn may bridge or minimise any potential gap. The result is also important in identifying whether the VfM audit is perceived as playing a significant role in improving UK Public Sector bodies’ performance.

Based on Porter’s (1993) definition of the audit expectations and perception gaps, and also on the data shown in Tables 2 and 3, three types of expectations and perception gaps were identified from the assessment of the roles expected and perceived by the auditors and the clients as well as defined by the official documents.

First, a ‘role expectations gap’ is said to exist between the roles that could be reasonably expected of auditors, and auditors’ current role, as set up by the regulatory bodies. According to the official documents, VfM auditors have to satisfy themselves that the audited bodies have in place proper arrangements to secure economy, efficiency and effectiveness in managing tax payers’ money. The results presented in Table 2 show an incongruence between the role expectations held by the auditors and their clients from the Housing Associations, Police Authority and the NHS bodies. Although this incongruity is not significant, it still indicates the existence of an audit expectations gap between auditors and their clients regarding the auditors’ duties to assess economy, efficiency and effectiveness factors.

Second, a ‘reasonable expectations gap’ exists when the clients’ expectations of the auditors are not part of the auditors’ roles as set up by the regulatory bodies, and when auditors do not perceive these as part of their duties. The code of audit practice (2005, section 22) reveals that auditors should not become involved in providing the audited
bodies with solutions to remedy problems and improve performance. The results presented in Table 2 indicate significant variations between auditor and client expectations surrounding these issues, i.e., the external VfM auditors’ duties to provide their clients with solutions to remedy problems. The majority of the clients interviewed argued that the VfM auditors should suggest solutions to remedy problems and improve performance, while the auditors argued that this is not part of their remit and to get involved in this way could cause them conflict. This variation of views between the VfM auditors and the clients indicates an audit reasonableness gap between the two parties, i.e., the external VfM auditors and the clients.

Thirdly, this study has examined the ‘duties performance gap’ which exists when auditors do not fully fulfil any of their duties as expected and perceived by the clients. Five concepts were examined to investigate the existence of such a gap. The results presented in Table 3, show both parties’ perceptions of these concepts. The Table indicates a duties performance gap in the UK Public Sector. In general, clients are not impressed by the external VfM auditors’ performance. The most significant variations occurred between auditors and clients in Housing Associations, the Police Authority and NHS bodies. Overall however, it is apparent from the Table that clients from the Local Government bodies have some positive perceptions about the external auditors’ performance.

The data analysed reveals that these differences of outlook between the respondents from the Local Government bodies and the respondents from the three public authorities are due to the differences in the nature and importance of the services provided by these bodies. For example, clients from the Police Authority and the NHS bodies argued that
the services they are providing are vital to public safety and health, and have an intangible value not easily grasped by the external VfM auditors who mostly have a financial background. As a result, clients interviewed from these public bodies argued that they are willing to compromise the efficiency of these services to improve effectiveness. They added that the auditors sometimes do not take these differences into consideration. Finally, these audit expectations and performance gaps between the auditors and the clients increased the potential for role conflicts between the two parties, and this is discussed in the following section.

5.4. Role conflicts

Role conflict is defined as the extent of incompatibility or disagreement between job tasks, resources, rules or policies, and members in an organisation (Dale and Fox, 2008). It also refers to the extent of contradiction and divergence among expectations associated with an individual’s role (Shih and Chen, 2006).

This section explores the sources and the consequences of the external VfM auditor role conflicts. The empirical data presented in sections 5.2 and 5.3 demonstrates the existence of audit expectations and perception performance gaps between the external VfM auditors and the clients. The most significant gap occurs in regard to the external VfM auditor performance and relates to whether this type of audit contributes to improving UK Public Sector institutional performance.

As the literature review describes, since the VfM audit’s emergence in the UK Public Sector in the late 1970s, the role of external Public Sector auditors has expanded. The
traditional role as watchdog or financial checker is no longer tenable. The emphasis on regularity has been overtaken by a new VfM audit focus, with external VfM auditors now being required to assess the economy, efficiency and effectiveness of handling public resources. Since VfM auditors are required to assess Public Sector performance, these new roles have also created new types of relationships between the auditors and different parties in Public Sector management and at an operational level in the same institutions.

The external VfM auditors’ involvement in assessing VfM audit factors, i.e., economy, efficiency and effectiveness, yields many benefits to them and the clients. It has increased their remits and brought them new business (Lapsley and Pong, 2000). It has also brought external VfM auditors new challenges because of their requirement to contribute to performance improvement in Public Sector institutions. However, the translation into practice of these new Public Sector audit roles has been broadly perceived as problematic, and inherently conflicted, thus bringing into question the competency of the external VfM auditors to undertake these assessments. In effect, VfM auditors are required to play a role which conflicts with their professional standards and capacities.

Drawing on the process of role-taking, based in Katz and Kahn’s (1978) role theory, this research examines three types of role conflicts which may occur in the VfM audit environment. These are:

1. Conflict between the VfM auditors’ capabilities and their roles (role overload)
2. Conflict between the VfM audit roles and the auditors’ values and professional standards (person-role-conflict).
Chapter Five: External auditor - perceptions and expectations of VfM audit roles

3 Conflict between the VfM auditors and the clients (inter-sender conflict).

5.4.1. Conflicts between the auditors’ capabilities and their roles (role overload).

Role overload occurs when the auditors perceive that the requirements related to their job exceed their abilities, time and motivation to successfully perform the tasks related to their job (Veloutsou and Panigyrakis, 2004). Van Peursem (2004, 2005) expresses concern about the auditors’ lack of professional skills and the potential negative impact on the audited bodies of such lacunae. Hence, involving external VfM auditors with limited relevant qualifications and experience in Public Sector business is likely to cause conflict and affect the auditors’ ability to influence clients to change their management of public resources. The clients’ perceptions of the VfM audit’s immaterial and unrealistic findings can damage the auditors’ reputation in the eyes of the clients. As a result, clients may have little faith in the VfM auditor outcomes, and may also be less willing to implement their recommendations, or even lose interest in the whole audit process. As one auditor from a private accounting firm comments:

“I think the risk is the sense that you could end up reaching a judgement that would not be the right one because of the subjectivity of the whole approach. And it has been an area that has led to difficulties in relationships between auditors and the audited bodies, and that has been a problem since there is an appeal process in VfM” (auditor / a private accounting firm).

Sections 5.2.2 and 5.3 present empirical data demonstrating the existence of an audit
expectations and perception gap, both between the auditors themselves, and between the auditors and the clients. One of the most significant differences between both parties’ perceptions, and even among perceptions held by the auditors themselves, concerns auditor competence to assess the audited bodies’ effectiveness. This difference has caused external auditors’ suitability for VfM audit provision.

The interview data reveals that the external VfM auditors’ role as professionals is to ensure that they themselves add value and make a considerable contribution to performance improvement in the audited bodies. Auditors help the clients, first by highlighting the strengths and weaknesses of client conduct, then by providing workable recommendations. The following comments by some auditors demonstrate the roles played by the VfM auditors in helping the clients:

“We have to give a conclusion each year, within our annual audit report, which confirms whether we are satisfied with the overall arrangements that the audited body has to improve performance and deliver value for money services” (auditor / a private accounting firm).

“I would say that there are benefits of our work to the audited bodies, sometimes, and reasonably often we are asked to do a piece of VfM audit work because some organisations recognised there are weaknesses and they feel that somebody independent can best look at that” (auditor / private accounting firm).

These comments indicate that the external VfM auditors can make a valuable contribution to improving performance. On the one hand, they help the clients (Public
Sector organisations) to comply with the statutory requirement in terms of holding a VfM audit, demonstrating to the provider of public resources that they are delivering VfM services. On the other hand, they might be asked voluntarily and informally to provide some public organisations with advice on how to improve performance. This usually happens when these public organisations recognise they have a specific problem and need an external professional perspective.

Hence, in carrying out their formal and informal tasks for the clients (public organisations), meeting client’s expectations and coping with rapid changes in Public Sector organisations, the external VfM auditors must have the relevant professional qualifications and skills in order to provide the clients with a good quality audit. They should also exhibit the ability to serve the clients in the best way they can and they should continue to improve their skills to cope with such demands.

The Audit Commission Act, 1998, part two, subsection five states that ‘a person shall not be appointed by the Commission as an auditor unless he is a member of one or more of the bodies mentioned in subsection seven’. In addition, subsection six states that ‘a firm shall not be appointed by the Commission as an audit firm unless each of its members is a member of one or more of the bodies mentioned in subsection seven’.

It is evident that all members of these bodies are rigorously trained accountants, working

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4 Subsection seven of the same Act (Audit Commission Act 1998) lists the bodies which have been referred to in subsection 5 and 6, they are:

a) the Institute of Chartered Accountants in England and Wales;
b) the Institute of Chartered Accountants of Scotland;
c) the Association of Certified Accountants;
d) the Chartered Institute of Public Finance and Accountancy;
e) the Institute of Chartered Accountant in Ireland; and
f) any other body of accountants established in the United Kingdom and for the time being approved by the Secretary of State for the purpose of this section.
to a high professional standard. However, in the context of the VfM audit, the majority of clients, and some of the auditors interviewed, do not value such qualifications. Instead, they believe that these qualifications and skills are more relevant to the auditor’s competency to carry out a purely financial audit. They also believe that the majority of the current external auditors still lack relevant VfM audit professional qualifications and, as one of the auditors interviewed maintains, that there are no specific training programs where candidates have to pass a test to be professionally qualified as VfM practitioners. As an auditor from a private accounting firm notes:

“If you look at most professions, obviously you know, accountants, lawyers, surveyors, engineers, teachers, etc, all do exams; they have that sort of professional background, whereas with the VfM audit you do not have to have anything, anyone with sense could be a practitioner of the VfM audit” (auditor / a private accounting firm).

This lack of relevant professional qualifications makes the task of external VfM auditors more difficult and causes conflict as a result of role overload associated with a VfM audit. The analysis carried out for this study reveals that external VfM auditors perform a wide range of roles. They have to focus on issues far beyond mere financial audit, undertaking instead a performance audit, which is based, to a great extent, on subjectivity. When participants were asked about the main reasons behind such conflict, one common point of view emerged, namely the influence of the auditors’ accountancy background on their assessment of client effectiveness. It was discovered that the majority of the auditors acting as external VfM auditors were qualified accountants, and, clients argued, to be able to provide clients with a reasonable VfM audit assessment,
auditors would need to eliminate, or to minimise, the influence of their accountancy background, focusing more on using their common sense, given the considerable disparity between a VfM audit and a financial audit. The following comments from the participants illustrate this argument:

“The difficulty is that they have this very strict set of rules and if you are an accountant, I think that you work within certain parameters. Accountancy is a more precise art form than service delivery ‘on the ground’, because service delivery ‘on the ground’ can almost change ‘on the hoof’, depending on what happens. For example, if we had a tenant who asked for something to be done, we would deal with it in a way that suits them; we might have another tenant who wants a similar thing done but you have to deal with it in a different way because of their family circumstances, or the size of the property or the area they live in; we have to adopt different ways of operating. But, I think that accountants probably see things very much in certain boxes” (client / Housing Associations).

“If you went and lined up 10 people the equivalent of me, everybody would have a slightly different definition of what they thought VfM was. And maybe the Audit Commission’s definition of VfM is rather more processed and system-driven than what I would say VfM was about. I think VfM is about lots of intangible things; like how people feel about things as well as about how much things cost or how many extra units of outputs you get” (Head of Quality Performance / Local Government Authority).

These comments show that, for the most part, client participants believe that it is difficult
for the current external VfM auditors, who were trained as accountants, to have a feel for the intangible values which dominate Public Sector services. The analysis carried out for this study reveals that auditors prefer to work in areas where they can be definite in their measure, and, consistent with what Flint (1988) posits, it is precisely in such areas where potential conflict can arise between the external auditors’ values and capabilities and the requirements of the VfM audit, since auditors are required to understand the nature, structure and institutions in which they apply the VfM audit. Auditors need to recognise that the assessment of Public Sector performance is mostly based on educated judgement, which is difficult to quantify.

Hence, as consistent with Morin (2003), it appears that auditors need to eliminate the mechanistic thought process likely to surface when carrying out a VfM audit. These thoughts, he argues, largely originate from the financial statements audit, which is, in fact, an illusion for the auditors who believe in a certain linearity and predictability governing both the influence process inherent in the VfM audit and its impact both on auditees, and on the management of the audited bodies.

Similarly linked to a role overload conflict in the VfM audit environment is the high volume of VfM audits. Biddle (1986) explains that role overload signifies “having too much to do.” Role conflict also occurs when a person is faced with too many expectations. The interview data reveal that the majority of auditors, particularly in the Audit Commission and private accounting firms, maintain that they are prevented from giving a good quality assessment (through targeting and examining specific departments within an audited body) primarily because of the high volume of VfM audits they must undertake, and the typically meagre budget allocated to the VfM audit by the audited
Auditors added that, as a result of this audit overload, they can only make a general overview, based on the evidence provided by the audited bodies, on the audited body's current VfM status. However, they also added that there is still scope for much more detailed work in regard to specific services and departments and that an audited body must assume the responsibility of first identifying those particular sections which are overspending or not achieving their objectives. Provided with such evidence, auditors are then enabled to work with more focus.

There is thus a potential conflict in the VfM audit as a result of the influence of task interdependence on auditors’ performance. It is clear that external auditors need client co-operation by providing them with reliable evidence; otherwise their task is likely to fail, or at least their assessment would be inaccurate. The following comments demonstrate this view:

“We do our data analysis piece of work and we say, ‘look here is how the numbers look; now we recognise the shortcomings of these data sets and we want to put them in context so let us have a discussion. Let us talk to you about your service – you can tell us the story of where your service has been in the last couple of years, you can tell us what is important at the moment, and what you are doing’. Because we do not know everything, they are more knowledgeable than us, that is the point, that is why we have to go and talk to them and transfer that knowledge from them to ourselves” (auditor / a private accounting firm).

“I think there is still scope for a lot more detailed work around specific services. As I said, with an overall budget approach you can have a particular service like
anaesthetics, which is just, clearly not achieving VfM, but overall the organisation is; so therefore, we say ‘yes, overall you are doing okay’ but I think there is a bit of a gap, not enough detailed work to actually ‘drill down’ and find out the individual service level - whether individual parts of an organisation achieve VfM” (auditor / a private accounting firm).

“If a hospital hits the 18 week target for seeing people then that is deemed to be effective. So we sort of rely on their evidence. Well, all people who get an in-patient appointment have to be seen within 18 weeks. What could happen is that someone who really needs to be seen within 9 weeks is ignored, while someone whose condition is quite trivial, has been seen within 18 weeks. So, they apparently seem to be effective since they hit the target of 18 weeks, but in reality they are not and we have to rely on them because details are lacking” (auditor / Audit Commission).

These comments demonstrate the challenges facing external VfM auditors. The comments indicate the importance of the external auditors’ ensuring that they have fully understood the audited bodies’ system, including any inherent weaknesses. Unfortunately, due to time constraints and budgetary limitations, such a detailed understanding is not always possible. Thus it is prudent for external auditors to persuade the audited bodies to declare frankly any concerns, as it is precisely these concerns which, if not discussed, are likely to provoke conflict. The interview data indicates the potential for the audited bodies’ management to present the audit evidence in a biased manner in order to conceal weaknesses or errors in the ways they have managed public resources. Consequently, the reliability and credibility of the external VfM auditor
outcomes are likely to be affected.

This argument has been supported by the majority of client participants from all the audited bodies involved in this research. They argued that they, the clients, can influence the direction and the scope of the audit, since the auditors do not have enough time and knowledge specifically to target and examine in depth all the audited bodies’ individual departments. The comments below illustrate how clients might bias the VfM audit outcomes:

“There is (sic) sort of two schools of thought in dealing with the auditors: you just give them the bare minimum and do not let them look anywhere else; we sort of come from the other school of thought that you think ‘we will just give them everything because we have got nothing to hide’, we have done a lot of work on VfM and everything, we want to show them that work” (a client / Local Government Authority).

“I just think time constraints and I think that you can throw huge amounts of paper or data at someone and call it evidence of what you are doing but unless someone knows the organisation quite well, it is going to be difficult for them to sift through and actually get a real picture” (a client / Housing Association).

In addition there is an apparent link between the ambiguity of the interpretation of the VfM concept and the VfM audit’s inherent audit overload conflict. Magee and Tseng (1990) argue that there are many accounting standards which require auditor judgement in order to determine the appropriate method for a given client, and the potential for
different auditors to arrive at different judgements gives rise to the possibility that a positive value of incumbency could lead auditors to approve a report that, in their judgement, may be viewed as an audit failure. It is not clear whether it is possible to objectively determine definite standards of what a real value for money is (Ševic, 2005). As noted by the following two auditors:

“You can almost get into different definitions of what VfM is, or whether it is efficiency or whether it is, sort of, other factors driving the economy. So I think there are a number of potential tensions and conflicts within the whole concept of VfM because I think it can mean different things to different people and also different organisations” (auditor / Audit Commission).

“If you want to judge whether council ‘A’ has a reasonable financial strategy in place, well, if it has, then you tick the box and that is fairly straightforward. But when you are talking about VfM, I do not think it is necessarily as easy as just a ‘tick box’ exercise, because there are so many other variables which have to be considered and they vary from region to region and from client to another” (auditor / a private accounting firm).

This ambiguity in the meaning of the VfM concept contributes to the existence of a potential role overload conflict in the process of the VfM audit, since it is difficult for the auditors both to make an accurate assessment of the VfM elements (economy, efficiency and effectiveness) and to provide the clients with value added recommendations.
To summarise, many factors simultaneously contribute to role overload conflict during the VfM audit process. Such factors include: the external auditors’ lack of relevant qualifications, demand to carry out a high volume of VfM audits while facing budgetary constraints, considerable ambiguity surrounding the perceived meaning of the VfM audit concept, and the characteristically intangible core values of public sector services. This role overload conflict is in turn likely to provoke conflict between the VfM audit roles and the auditors’ own values and professional standards. This type of conflict will be discussed in the following subsection.

5.4.2. Conflict between VfM audit roles and auditors’ values and professional standards (person-role-conflict)

Person-role conflict occurs when the expectations associated with fulfilling a specific role conflict with the auditor’s moral, ethical or self-concept. In addition, person-role conflict occurs when the requirements of the role violate the needs, values and capacities of the occupant of a position (Assiri, 1997).

This section argues that the challenges facing external VfM auditors arise from the intrinsic incompatibility between professional inclinations and commitment to the clients. The professional commitment of the auditors to the clients is, in general, to provide a good quality audit in order to improve the credibility of their accounts in the eyes of the users of the financial statements. This commitment is obtained via the process of preventing, detecting and reporting of any uncertainties to the relevant users (DeAngelo, 1981; Moizer, 1985; and Porter et al., 1996).
Such a professional commitment should also be applied to the external VfM auditors since, as the last section mentions, the main aim of the auditors is to provide the clients with a reasonable assessment of the VfM elements (economy, efficiency and effectiveness) and to assure both the Government and the general public of their proper conduct. In other words, external VfM auditors must convince the regulatory bodies, the audited bodies and the general public that they can make a positive contribution to public organisations’ performance improvement through making a proper VfM assessment and providing the audited bodies with value added recommendations.

There is considerable evidence, however, of a potential conflict between client expectations and perceptions of the external VfM auditor roles and the ethical standards of the external auditors’ profession. Ridley (1996) cautions auditors to recognise that auditing is no longer a job for life, but, rather, that it can constitute a life profession. As with other professions, regulatory bodies like the National Audit Office (NAO) and the Audit Commission (AC), have both made an attempt to codify and implement a predefined set of accepted values and professional standards for external VfM auditors.

Accordingly, the National Audit Office Act 1983, and the Audit Commission’s Code of Audit Practice (last amended in 2005 and required to be amended every five years), have both insisted that VfM auditors are not required to consider whether aspects of the audited body’s arrangements for securing economy, efficiency and effectiveness in its use of resources are actually effective. This means that the auditors are not required to provide the audited bodies with consultancy services which would quite probably compromise their independence. Morin (2003) argues that the audit has always been
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linked to control and has gained its credibility through the auditors’ objectivity, independence, professional competence and their ability to provide clients with accurate assessments.

The analysis carried out for this study reveals the existence of the public audited bodies’ somewhat unreasonable expectations in regard to the scope of external auditors and the extent to which they can provide clients with consultancy services. These consultancy services could signify the external VfM auditors developing solutions to remedy problems and recommending courses of action or formulating opinions. The expectations and perceptions held by the external VfM auditors’ clients clearly indicate the continuous pressure to bend external auditors’ professional values to accommodate the perceived requirements of their clients. As an auditor notes:

“We work on both sides of the fence – so obviously we work in a consultancy capacity as well, and that makes it ever more difficult, where on the one hand we are auditing and on the other hand we might be giving further advice and consultancy support – we have to be very careful not to create conflicts” (auditor/ a private accounting firm).

From one perspective, external auditors’ clients’ perceptions and expectations are important to the satisfactory performance of the external auditors’ roles. The interview data analysed in the last section reveals the existence of role overload conflict. According to this data, role overload conflict occurs when there is a high volume of VfM audits with insufficient dedicated time for the auditors. From an auditor standpoint, Public Sector organisations are unlikely to allocate realistic budgets for the VfM audit.
Hence, auditors need the audited bodies to provide them with reliable evidence about any overspending departments in their organisations. This means that the success of the external VfM auditors’ mission is heavily dependent on their clients’ cooperation, without which the auditors’ mission is likely to fail.

On the other hand, external auditors, like other professionals, are required both to abide by their professional standards and to refrain from performing any task that is inconsistent with these standards. Here again it seems likely that the external VfM auditor roles may pose special challenges, since these two tasks, i.e., complying with client expectations and abiding by VfM audit professional standards, are brought into conflict with each other.

In addition, according to Flint (1988), further person-role-conflicts could arise as a result of the external auditors’ lack of professional competence and their ability to provide the clients with an accurate assessment. This professional competence, as suggested by Morin (2003), is important for enhancing the image of the VfM audit. Table 3 shows that a significant number of the auditors interviewed were conscious of their ability to deploy quality assessment of effectiveness as part of the VfM audit process. Hence it can be inferred that there is, firstly, a real pressure to bend the external auditors’ professional values to accommodate the perceived requirements of the VfM audit and, secondly, that their professional commitment to their profession is hindered as a result of the difficulties associated with the VfM audit.

Two broad interpretative possibilities emerge from the data in regard to the external auditors’ involvement in the VfM audit and their ability to carry out a proper VfM
assessment. Each one represents both a challenge and a threat to the external auditors. One school of thought argues that the term ‘audit’ has historically been associated with objectivity, accuracy and good quality audit outcomes. This school of thought was represented by 54 percent and 50 percent of auditor participants from the private accounting firms and the Audit Commission, respectively. Those who upheld this view believe that involving the external auditors in this ambiguous and high risk task, i.e., the VfM audit, would jeopardise their professional commitment to provide their clients with a good quality audit, and to present reliable findings and value added recommendations. Respondents admitted that many difficulties exist in the process of the VfM audit, particularly, the difficulties in assessing the effectiveness of the public services and their lack of competency to balance its assessment with the other two elements; economy and efficiency. As commented by one of the auditor participants:

“It challenges auditors, it puts them in difficult positions sometimes with their clients because, with your client it is easy to argue if they have done their financial accounts incorrectly and you have got the evidence there in black and white. But on the other hand, in VfM, they put forward the evidence and you have got to make some sort of an opinion on it and actually you can have lots of different opinions and it is quite difficult to argue that out because who is to say right and who is wrong? And there is no absolute standard set. So, I think it is very complicated and it can cause tensions with the client, and you want a positive relationship as I said at the beginning and therefore this kind of assessment can cause some friction in the relationship which can be difficult” (auditor/a private accounting firm).

This comment highlights the existence of a high level of ambiguity and subjectivity
surrounding the VfM audit process. It also shows the external auditors to be cognisant of the importance of maintaining a positive client relationship. It, therefore, appears probable that those taking this view, acknowledging the difficulties involved in the VfM audit provision and its influence on their actual VfM assessment, are likely to be more willing to cooperate with their clients to overcome these difficulties with the process, and to devise a satisfactory conclusion for both parties. This is in line with the findings of a study carried out by Knapp (1985) and Awadallah (2006), who revealed that auditors are likely to be less able to resist client management pressure in a conflict situation, which requires the exercise of considerable judgement, than in a situation where the auditing issues are reasonably clearly specified.

However, auditor participants of this opinion still believe in the value of undertaking the VfM audit especially given that it is a statutory Government requirement for Public Sector bodies. They argue that, although lacking a high level of competency due to an imperfect knowledge of the nature of the Public Sector business, they are still the most appropriate body to undertake the audit given the alternative scrutiny tools that are available to the Public Sector bodies. In other words, followers of this school of thought believe that “something is better than nothing”. As commented by the following two auditor participants:

“It is an extremely difficult task and there are shortcoming in terms of the quality and reliability of VfM reports and the particular measure that we have at our disposal. But, I think it is a fair system if we consider that there are not many alternatives” (auditor / Audit Commission).
“I suppose an alternative way of doing it might be if you have somebody from education reviewing education service, delivery people reviewing the health service and health service people reviewing the police and police reviewing education. You could try this way but frankly I am not quite sure what benefit there would be in that way, because you will end up with people who do not fully understand it. They will not understand it and there will be a long learning curve to develop an understanding of it, so I think the best model probably is the one we have now which is NAO, Audit Commission and sub-contractors as an independent review. I think you need that” (auditor / a private accounting firm).

This argument has been supported by the majority of client participants. They agreed with the auditor participants on the difficulties surrounding the process of the VfM audit. From a practical perspective, they added that, although the value added by external auditors to their organisations is limited, they remain convinced of the appropriateness of external auditors to undertake this task. Furthermore they maintained that, from a technical point of view, although their internal auditors and senior professionals are more competent to assess performance, internal staff had the sole responsibility for performance assessment, independence would likely be compromised. They also argued that in order to improve the credibility of their conduct in the eyes of their senior management and outsiders, it is better that this type of audit is conducted by the external auditors. As a director of nursing in a hospital comments:

“The value is more to the Public, that they can look at the auditor as an external inspector, to say that if they are satisfied then it gives some assurance to the Public, because there is a focus on value for money; there is a focus on performance within
the organisation and it is important that the Public understand and believe that. It is very easy for us to say we are doing well; it is much harder to convince the Public that we are doing so. So, to the extent that the auditors can confirm that, then that is helpful because as an independent organisation they will give that assurance to the Public” (a client / NHS).

Another director of a Quality Performance department in a Police Authority states:

“I think if you look at the things that they recommend, probably half of them we might have identified ourselves anyway. But maybe half of them are new things, but the ones that we had identified but we have not done, is probably only because of not giving it priority previously, but once the auditors put it in an action plan, then obviously that raises its profile; then it becomes a priority – making it higher up the priority list than it might have been” (a client / Police Authority).

In addition, client participants who support this school of thought added that, when an external audit body evaluates their conduct, they are likely to face a healthy challenge and new blood in their organisations that may stimulate performance. The following two comments demonstrate this view:

“I would say that it is a very fair system and the system does enable us to be flexible and do our job. But it challenges us, and it is that challenge which is good because it does ensure we are constantly reviewing our procedures and processes and our priorities and it is really a good challenge and good test” (client / Local Government authorities).
“I think the difficulty is sometimes with the internal audits, when you want to compare yourself with other Trusts, you do not have that information to do so. And that is where the external auditors are useful, because they often have the ability to get the same information from other Trusts to be able to do some comparison” (a client / NHS).

A critical review of the above comments, combined with the earlier-cited empirical data supporting existence of an auditor-client perception performance gap, indicates the importance of holding a VfM audit conducted by independent audit bodies. As suggested by Percy (2001), the VfM audit’s importance stems not only from the practical contribution that it could make to the audited bodies, but also from its function in providing a level of assurance to the taxpayers that their money is being spent wisely. It also provides the audited bodies with an external perspective which enables them to establish their performance vis-à-vis other public organisations.

The second school of thought presents a different view, and is represented by all auditor participants from the NAO, and 50 percent and 46 percent from the Audit Commission and private accounting firms, respectively. It argues that the whole process of the VfM audit is not complicated and could be sensibly carried out. Boundaries delineating the extent to which external auditors can assess VfM audit elements have been set up by the regulatory bodies such as the Audit Commission or the National Audit Office. Therefore, the external auditors must operate within these boundaries and, according to these boundaries, they must either compare the audited bodies’ performance with specific performance indicators and Key Lines of Enquiry or they must compare the audited
bodies’ performance with their peers delivering similar services. As commented by the following auditor participants:

“We have some people who have got some clinical backgrounds, but often we do not need the clinical background to be able to challenge clinicians. What we are not going to do, typically, is challenge the medical judgments, what we can do is compare and contrast. So, we compare that hospital with other very similar hospitals or departments in different hospitals, treating broadly the same type of patients for the same type of conditions. We can also compare and contrast the information about a group of consultants working in same hospital to find out who doesn’t always attend their out-patient clinics and who does. We can draw out those sorts of differences and challenge the organisation and say, well, why does consultant A never see his patients in his out-patient clinic whereas 80 percent of the other consultants do. So, even without the clinical knowledge, we still can challenge quite a lot of performance and create change” (auditor / a private accounting firm).

“I think there are established guidelines within Central Government, there are Treasury guidelines on certain financial practices that you would expect people to have in place, so the NAO will be assessing people’s performance against those standard Treasury guidelines. So I do not think there is a conflict there, I think they are applying a set of guidelines, frameworks that Treasury has established, they can then provide recommendations certainly and I guess there is no conflict there” (auditor / National Audit Office).
These comments show that auditor participants of the opinion that VfM audit is a simple and straightforward process have more confidence to undertake VfM assessments, providing their clients with a good quality audit and accurate findings and then suggesting realistic and practical recommendations. They subscribe to a ‘can do’ philosophy, a term used by Lapsley and Pong (2000). They argued that there are certain key elements which must be in place to qualify whether the audited organisations, which operate in the Public Sector, have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. They admitted that, although they sometimes do not fully understand the operational side of the audited bodies’ business, this lack of understanding does not inhibit them in assessing the VfM elements, i.e. economy, efficiency and effectiveness, and providing proper audit outcomes. They added that the external auditors’ in-depth knowledge of the audited bodies’ business is unnecessary, since, as mentioned above, auditors are simply making comparisons, basing their judgement on whether the audited body is in the lower or higher quartile, and then identifying areas where performance needs to be improved. From these comments, it would appear that the auditor’s confidence for this group encourages VfM auditors to confront and challenge clients in relation to problems encountered during the VfM audit process.

However, Table 3 shows that the majority of client participants disagree with this more optimistic category of the VfM auditors who follow this school of thought. Clients frequently criticise these external auditors on the grounds that they oversimplify the difficulties associated with the VfM assessment, a situation which might bring about an audit failure. As a Director of Quality Performance in a Police Authority notes:
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“I think sometimes they are over-simplistic in their assessments because they do not understand the complexity and the difficulty that we have. You might learn the theory of VfM, but then, in practice it can be quite hard. And if you learn something in say the Health Service, and a hip operation costs ‘x’, and you can compare hospitals as to how many hip operations they actually conduct, that might work well in that kind of environment, but in a police environment it does not really work and unless you have got somebody who is well experienced in police matters they might not understand some of those issues really. So, it is hard to generalise, but I think sometimes it is a bit over-simplified really” (a client / Police Authority).

Such criticism has been confirmed by Lapsley and Pong (2000) who argue that this oversimplification of the complexities of the VfM audit process constitutes the dominant ideological orientation of those promoting this type of audit as a growth market for professional accountants. In addition, client participants who criticise this orientation (as followed by the majority of external VfM auditors) argue that these external auditors usually make their judgement on the basis of ‘one size fits all’ roles, or measure the audited bodies’ performance against indicators which have been set up by the Government with a minimal level of coordination with local professionals who are working on the ‘front line’. They added that this is an area of potential conflict since these indicators are not always relevant to the audited bodies’ circumstances.

The main conclusion which emerging from this sub-section is that the VfM audit is fraught with difficulties due to its inherent subjectivity, involving external auditors who are not competent to undertake this type of audit and are likely to risk their professional status. In addition, the existence of unreasonable client expectations about external VfM
auditor roles, in terms of helping them to develop solutions to remedy problems and improve performance, is likely to pressure the external VfM auditors into providing the clients with consultancy services. Although external VfM auditors are interested in maintaining positive relationships with the clients in order to encourage them to cooperate with them and help them to cope with the VfM audit overload, in contrast, complying with their clients’ expectations by providing them with consultancy services is likely to risk their professional status.

5.4.3. Conflicts between auditors’ and their clients

While the nature and the scope of benefits gained from the VfM audit might vary greatly among individual auditors, there is a common agreement that the external auditors have different roles to play in helping public bodies to improve performance. The majority of auditor and client participants were convinced of the importance of the VfM audit as an aspect of good corporate governance, providing reasonable assurance that the public bodies’ operations are in accordance with the institutional legislations and are free from mismanagement. The VfM audit is a link between the audited bodies’ management, the Government and the Public in general. Most importantly, the majority of auditor and client participants regard VfM audits as a scrutiny tool which encourages Public Sector audited bodies’ management to re-appraise their conduct and organise their activities.

However, the data analysed for this current study indicates the existence of potential sources of role conflicts that could occur between the external VfM auditors and their clients, i.e professionals and Operational Managers.
Firstly, the analysis carried out for this study confirms the continuing persistent problems identified in the literature (see, for example, Pendlebury and Shereim, 1991; Lapsley and Pong, 2000 and Morin, 2003) and advanced by the majority of participants, both auditors and clients. According to the interview data, that the existence of strong professional interests which characterise Public Sector institutions has heightened the risk of a potential conflict, mentioned above. The majority of client participants from the NHS, Housing Associations and Police Authorities argue that their services require staff members with considerable professionalism. While still convinced of the VfM audit’s importance, they are conscious that the external auditors may not be able to understand the nature of their activities in order to conduct a reliable VfM assessment. These findings, regarding the influence of professional issues in public services on auditor-client relationships, accord with the views of Alvesson (1993) who observes that certain Public Sector professions are depicted as self-regulating, highly motivated and almost altruistic. He describes a situation in which there is ample potential for professional rivalry and friction, as well as the risk of these professionals engaging in defensive actions while pursuing their own interests and securing markets for the services of their own members. These client participants, maintaining that the nature of their institutions’ activities requires professionals with specific knowledge, argue that they are better informed as to how to improve performance in their institutions than external auditors. As commented by a Director of Housing Associations:

“My concern would be that they don’t necessarily have the relevant industry knowledge. They don’t necessarily understand what a property function is trying to achieve. They are very good at being able to identify whether our current procedures are being followed or not followed in the appropriate manner and identifying where there are
variations as to what is perceived to have been the way things should have been carried out. But, they don’t necessarily understand the bigger picture, and what is required in a property service function. They will focus on an issue that they understand without necessarily focussing on the more tenable aspects which they obviously don’t understand” (client / a Housing Association).

Secondly, consistent with Lapsley and Pong (2000) findings, this study’s analysis reveals that there are practical difficulties which inhibit the determination of best practice in VfM audit, notably an absence of standards upon which to draw in order to identify those public services which provide VfM. In addition, it is extremely difficult for the auditors, according to the interview data, to assess whether public expenditure has made any real improvement to the services delivered, since there are so many other factors which might contribute to that improvement. As discussed before, the broad aim of the external VfM auditors is to measure and assess Public Sector organisations’ improvement. Hence, determining an appropriate measure which is acceptable to both auditors and clients, and is capable of evaluating improvement, is a highly problematic process and likely to cause tensions between the two parties. As commented by an auditor:

“You get interminable debates about what is an improved outcome and how you deliver and measure it and then you get all sorts of debates around what kinds of measures you use, whether you use proxy measures and can you really prove an improved educational outcome, for example, so how do you measure that? The crime figures are another example, a lot of money has been spent on the police so which set of crime Figures do we use and there is a constant debate about whether
you take the British Crime Survey or some other crime survey and they all come out with different results so you spend your whole time debating what you are going to use as the measure without worrying about what the actual performance is – it is a huge problem” (auditor / a private accounting firm).

The analysis from this study indicates that such practical difficulties may cause client-auditor conflict, since such a situation reinforces each party’s distinct perspective on the nature of efficiency and effectiveness in public services and the appropriate assessment of these two elements. Thus, it may be advisable to implement Knapp’s (1985) recommendation that authoritative bodies need to consider a move to define technical standards more explicitly.

Thirdly, the use of standardised, or ‘one size fits all’ roles by the external VfM auditors, can give rise to a potential conflict between external VfM auditors and the clients. This conflict could impact heavily on the ability of VfM auditing to accommodate new ideologies and innovations current among Public Sector professionals. These Public Sector professionals may apply different ways of managing public resources, or develop certain policies and practices in harmony with their service users. Such practices may not always match those of the external auditors who usually only spend a short time with the audited bodies. As commented by one of the client participants:

“The auditors and inspectors are competent; it is their system that they have to work in which is very difficult and inflexible. When we had our Audit Commission inspection last year, their initial report said ‘we are looking for A but we found B’. And we are saying ‘yes, well you found B because we do this in this particular
way.’ It was not that we were working against the system; we promote a system here that works for our organisation and our end-users, so they really need to be more flexible” (client / a Housing Association).

This comment indicates that, for the most part, external VfM auditors usually apply standardised roles, which might not be relevant to each audited body. The majority of the client participants were concerned about the level of flexibility that external VfM auditors have when conducting VfM audits. These clients argued that they can conform to the expectations of external auditors and achieve a level of efficiency and effectiveness in conduct to satisfy their auditors, but, they added, this is likely to lead them to some sort of habits in managing public resources. They also added that they can only move forward and achieve excellence through doing things differently, through taking risks and looking at things from different perspectives. Nevertheless, according to their view, external VfM auditors do not normally enjoy a sufficient level of flexibility to allow for these different perspectives. Hence, as suggested by Morin (2003), in order for such conflict to be avoided, external auditors should envision each VfM audit individually and must, at all costs, resist the temptation to standardise their relationships with the audited bodies. In effect, while being guided by the VfM audit roles, which have been set up by their own regulatory bodies, it is highly advisable for auditors to operate with enough flexibility and judgement to adapt VfM audit roles to the context and circumstances of the audited organisations.


5.5. Conclusion

This chapter has presented the empirical findings of the external auditors and the clients (professionals and Operational Managers) in regard to the VfM audit in the UK Public Sector. Participants were asked about their expectations of external VfM auditor roles, as well as their perceptions of the performance of the VfM audit. This study has sought to investigate the existence of audit expectations and perception gaps between external VfM auditors and clients, in order to identify the nature and consequences of potential conflicts in the VfM audit environment, and to examine the impact of social factor interplay on the VfM audit’s performance.

The general pattern tendency uncovered by this study indicates significant variations between auditor and client expectations surrounding these issues, i.e. the external VfM auditors’ duties to fulfil Public Sector clients’ role expectations and the auditors’ roles as set out in the official documents. These variations indicate the existence of an audit ‘reasonableness’ gap in the UK Public Sector audit. On the one hand, clients perceive the inadequacy of over-simplistically defining auditor roles to be merely those of assessing the audited bodies’ arrangements for VfM service delivery, and identifying areas where performance must be improved. Clients want auditors to be allowed to express their professional views and use their wide experience, gained through assessment of performance in different organisations across the Public Sector, to provide suggested solutions for improved performance. On the other hand, the auditors perceive such client aspirations to fall outside the auditor remit and feel that compliance could compromise their professional independence and objectivity towards their clients.
In addition, analysis of both interviewee responses and statements found in the official documents indicate the existence of client-auditor perception gaps regarding the performance of the VfM audit. Interviewees were asked to express their views about five audit concepts, namely: auditor competence, the materiality of the VfM audit reports, the truth and fairness of the VfM audit findings, audit evidence and performance audit. Significant variations between auditor and client perceptions were identified in areas such as auditor understanding of the nature of the audited bodies’ business, auditor competence in balancing their assessment between the three VfM audit elements (economy, efficiency and effectiveness), the perceived value added to the audited bodies as a result of the VfM studies, and the truth and fairness of these studies’ findings. Other variations have been identified between interviewees, however these variations are less significant and concern the external VfM auditors’ relevant skills and experience, the auditors’ ability to assess economy and efficiency, the level of assurance provided by the auditors and the audit evidence and audit performance.

The analysis also indicates a variation of views canvassed in Public Sector organisations. It is noticeable that the respondents from the Local Government Authorities were more convinced about the VfM audit’s successful performance, compared to their counterparts from other Public Sector organisations. The analysis reveals that this variation in perceptions to be linked to the differing values and importance accorded to Local Government Authorities, as well as to other Public Sector institutions, notably the NHS bodies and the Police Authorities. Respondents from these sectors argue that they are providing services which relate to public health and safety and that, in most cases, the emphasis on effectiveness should be given a higher priority than an emphasis on either economy or efficiency.
Moreover, the analysis indicates variations of opinion between auditor participants themselves about the issues outlined above. The main auditor concerns were about their own ability to assess effectiveness, the materiality of their findings, the level of assurance they provided and the truth and fairness of their findings. Auditor participants from the National Audit Office have shown more confidence in assessing these issues than their counterparts from the Audit Commission and private accounting firms. The NAO is undoubtedly an organisation of impressive dimensions, having access to all Central Government departments and chiefly devoted to the examination, on behalf of Parliament, of issues pertaining to public department expenditure of public resources, and hence, their delivery of VfM services. The NAO, moreover, carries out VfM studies on a larger scale than the studies carried out by other audit bodies. Being thus distinct from the other audit bodies, in terms of their studies’ importance and the high profile of their audience (e.g., Members of Parliament) they, therefore, enjoy a full range of good quality resources and skills. However, the majority of auditor participants from the Audit Commission and private accounting firms argue that the audited bodies do not usually dedicate enough of a budget for the VfM audit; which restricts their activities and limits opportunities to target and scrutinise specific departments within the audited bodies, in order to provide their clients with a good quality audit.

Finally, the data analysed for this study reveals that the ambiguity in the VfM audit process, combined with the auditors’ lack of competency, limited dedicated budgets, and the high volume of audits required (audit overload), all contribute to conflicts occurring during the VfM audit and undermine its effective performance. Interviews reveal three types of role conflict connected to the process of the VfM audit. These are: (1) conflict between the external VfM auditors’ capabilities and their roles (role overload); (2)
conflict between the external VfM audit roles and auditor values and professional standards (person-role-conflict); (3) conflict between the external VfM auditors and their clients (inter-sender conflict).

In addition, audit as a profession has always been associated with notions of control and has derived its credibility from auditor objectivity, independence, professional competence and the ability to provide clients with accurate assessments. However, the existence of those conflicts mentioned above in the process of the VfM audit, indicates that these professional characteristics are less likely to be applied in the context of VfM auditing. The majority of client participants, and even some auditor participants, expressed concern about the external VfM auditors’ ability to deliver a good quality assessment and provide their clients with value added recommendations to improve performance. The interview data reveals that some Public Sector organisations, particularly the NHS bodies, the Police Authorities and the Housing Associations, do not usually rely on the external VfM auditors’ recommendations to improve performance. These organisations claimed to have high levels of professionalism, and upheld the core, yet intangible values, which are mostly embedded in their services, but difficult for external auditors to recognise when formulating recommendations. As a result, these public organisations are more likely to use the VfM audit to provide assurance to the Public and to show the Government that they are complying with the statutory requirements, rather than as a means to achieve improved performance.
6. Chapter Six: Conclusion and Discussion

6.1. Introduction

The aim of this study is to contribute to the growing literature on the audit expectations gap by extending it into the area of the Public Sector audit. Specifically, this Thesis has sought to examine how external auditors and clients, i.e. professionals and Operational Managers perceive VfM audit performance, in terms of improving the delivery of VfM services in the UK Public Sector organisations. It started with the recognition that a considerable amount of literature has focused on investigating the audit expectations gap in the Private Sector however, little is known about the existence of an audit expectations gap in the Public Sector audit particularly, a VfM audit. In addition, the literature has focused on investigating a gap between the auditors and users of the financial reports, hence ignoring the expectations and perceptions of the audited bodies. There is a need to focus on the audited bodies’ view, since their cooperation with the auditors is crucial to the success of the auditing process (Power, 2003b).

A review of the literature has further indicated that most of the studies on audit expectations gap employed the positive approach in their investigation and treated audit expectations gap as an absolute concept devoid of the influence of social factors in the audit environment, hence ignoring the interplay of factors at various levels, namely the personal, interpersonal and external levels existing in the VfM audit environment that may have shaped the expectations and perceptions of auditors and their clients of the usefulness of the VfM audit in improving performance in the Public Sector.
organisations. At the personal level, these factors relate to VfM auditor competence according to their skills, experience and knowledge of the public bodies’ activities. At the interpersonal level, they relate to the potential for client-auditor task interdependence. At the external level, they relate to the VfM audit’s intrinsic ambiguity to affect auditor-clients role-taking process, through obstructing the external auditors’ statutory power over clients, and undermining the VfM audit’s effective performance.

Since the basic contention of this Thesis is that the interaction and communication between the VfM auditors and the clients are influenced by these various interrelated factors, which have been mentioned above, a methodological framework, capable of providing a richer and more meaningful way of explaining the impact of the influence of these factors, was needed. In other words, it is both inappropriate and impracticable to study, as a positive or quantitative phenomenon, the topic of client and VfM auditor perceptions about the VfM audit’s own performance as a means to improve the audited bodies’ performance. Hence, the decision was made to conduct an ethnographic explanatory study based on a qualitative approach and semi-structured interviews as a method of data collection; this approach is suited to providing insights into such perceptions and how they are shaped by the interplay of social factors at the personal, interpersonal and external levels.

Chapter five presented empirical data on participants’ expectations of the VfM auditor’s roles and on their perceptions of the usefulness of the VfM audit in terms of improving performance in UK Public Sector organisations. In addition, the Chapter presented, and compared with previous studies, empirical data on the effects of specific social factors, which have been mentioned above, on both client and auditor performance, and the
conflict such factors provoke within the VfM audit environment.

This Chapter now provides a deeper discussion of these data in relation to extant theory, and reflects upon the conclusions that can be drawn from the research. The decision to present the conclusion of this study in the context of discussing its findings was considered wise in order to avoid repetition. Hence, this Chapter is organised into seven sections including the Introduction. Section 2 discusses the results of the interviews regarding the audit expectations and perception gap. It identifies differences between auditor and client expectations and considers whether they have reasonable or unreasonable expectations of the VfM auditor’s roles. It also aims to examine participant perceptions about five concepts namely: the VfM auditors competence, the materiality of the findings presented in the VfM audit reports, the truth and fairness of these findings, participant perceptions of the evidence provided by the audited bodies and participant perceptions of the VfM audit (specifically, this type of audit is perceived and experienced as a process for improvement or for control). The section then extends to identify the nature of role conflicts in the VfM audit environment and discusses the causes and the consequences of potential conflicts. Section 3 presents a discussion on how the interplay of personal, interpersonal and external factors could enhance or hinder the VfM auditors’ statutory power and the VfM’s effective performance. Section 4 presents reflections on the conclusions drawn from this research. Section 5 presents suggestions to improve the perceptions of the VfM audit’s usefulness. This is followed by a discussion in Section 6 about this study’s contributions to the literature on auditing. Section 7 presents the limitations of the current research and proposes avenues for future research.
6.2. Discussion on the audit expectations and perception gap and role conflicts.

6.2.1. Audit Expectations gap

According to the interview data, there is a broad bi-lateral agreement on the general topic of client-auditor role expectations. The majority of participants from both parties, i.e. external auditors and clients, do not deny the remit of the external VfM auditors to assess the VfM factors, i.e. economy, efficiency and effectiveness. On the contrary, the evidence provided from the interviews indicated significant variations between external VfM auditors' and clients' expectations surrounding external VfM auditors’ duties to fulfil Public Sector client's role expectations and the auditors' roles as set out in the official documents. These variations indicate the existence of an audit 'reasonableness' gap in the UK Public Sector audit. On the one hand the majority of clients from the NHS bodies, Housing Associations and the Police Authorities, and the minority of clients from the Local Government Authorities, perceive the inadequacy of over-simplistically defining the auditors' roles to be merely those of assessing the audited bodies' arrangements for a VfM service delivery, and identifying areas where performance must be improved. Clients who have this perception want auditors to be allowed to express their professional views and use their wide experience, gained through assessment of performance in different organisations across the Public Sector, to provide suggested solutions for improved performance. On the other hand, consistent with Morin (2003), almost all the auditor participants perceive such client aspirations to fall outside of the auditor remit and feel that compliance could compromise their professional independence and objectivity towards the clients.
When considered in the context of other studies investigating an audit expectations gap in the Private Sector, the findings of this current study concurs, to some extent, with the findings of Porter (1993) in New Zealand; Schelluch (1996) and Monroe and Woodiff (1993, 2009) in Australia; Gowthorpe and Porter (1999) in the UK; Best et al. (2001) in Singapore; Frank et al. (2001) in US; Fadzly and Ahmed (2004) in Malaysia; Dixon et al. (2006) in Egypt and Salehi (2008) in India and Iran. These scholars identified that, while auditors believe they have little responsibility for fraud detection and prevention, users of the financial statements appear to place significant responsibility on the auditors for these tasks.

In addition, close examination of the client participants’ expectations, and the official documents, indicates a correlation between the extent of unreasonable expectations held by auditors’ clients about VfM auditors’ roles and the length of time that public institutions, to which these clients belong, have been subjected to a VfM audit. For example, Table 2 shows that Local Government Authorities and NHS participants have a better understanding of the merit of the VfM auditors’ role than their counterparts from the Police Authorities and Housing Associations. A detailed examination of the official documents reveal that under the 1999 Local Government Act, the Audit Commission was given authority to carry out an inspection of the Local Government Authorities’ and the NHS bodies’ performance in regard to these bodies’ arrangements for the combination of the economy, efficiency and effectiveness of their use of public resources. Meanwhile, in 2005 the Audit Commission started carrying out this type of inspection in the Police Authorities and the Housing Associations (Audit Commission, 2008).
6.2.2. **Audit perception performance gap**

A further assessment of the interview data, which is presented in Table 3, indicated that, similar to the result of a study by Chowdhury (2005) in Bangladesh, a duties performance gap exists between the external VfM auditors and the clients in the UK Public Sector. This gap is present when auditors do not completely fulfil their duties as expected and perceived by the clients (Porter, 1993). This duties performance gap was mainly due to the external VfM auditors’ lack of competence to undertake a balanced assessment between the three VfM audit elements (economy, efficiency and effectiveness), and provide the clients with value added recommendations. The most significant differences of perceptions occurred between auditors and clients in Housing Associations, the Police Authorities and the NHS bodies. These variations between auditors' and clients' perceptions of the VfM auditors' competency are mainly due to the differences between the VfM audit, which is based on a high level of subjectivity and the auditors' use of their common sense, and financial audit where auditors are required to use simple accountancy measurement skills. This substantial difference supports Power’s (1997) argument in relation to the emergence of different types of audit. Power argues that the audit has become a constitutive principle of social organisation. He adds that, in addition to the financial audit, many other types of audit exist. To date these are: environmental audit, management audit, quality audit, forensic audit, data audit, intellectual property audits, medical audit and VfM audit. Based on Power’s (1997) argument, and on variations among participant responses regarding auditor competence to undertake the VfM audit, it could be suggested that neither the auditors’ roles nor the nature of the audited bodies’ business are monolithic entities and that, by extension, the
fact that groups of auditors possess a wide range of skills and experience in one type of audit does not make them competent to undertake absolutely any type of audit.

Overall however, it is apparent from the Table that clients from the Local Government Authorities have some positive perceptions about the VfM auditors' competence to undertake the VfM audit, and were convinced of the usefulness of the VfM audit for their organisations. A close examination of the interview data revealed that these differences of outlook between the respondents from the Local Government Authorities and the respondents from these three public authorities were due to the differences in the nature and importance of the services provided by these bodies. For example, clients from the Police Authorities and the NHS bodies argued that the services they are providing are vital to public health and safety, and have an intangible value not easily grasped by the external VfM auditors who mostly have a financial background. As a result, clients interviewed from these public bodies, i.e. the NHS and the Police Authorities argued that they are willing to compromise the efficiency of these services in order to improve effectiveness. They added that the auditors sometimes do not take these differences into consideration.

In addition, close examination of both participant expectations of the VfM auditors' roles, and of the participants' perceptions of the VfM audit performance indicates a correlation between clients who have unreasonable expectations of the VfM auditors' roles and those clients who are not convinced about the VfM audit's effective performance. For example, as mentioned earlier, clients from the Local Government Authorities have shown more understanding of the kinds of duties that could reasonably be expected from the external VfM auditors in comparison with level of understanding
shown by their counterparts from the Housing Associations, NHS bodies and the Police Authorities. Clients from the Local Government Authorities have the lowest rate of unreasonable expectations in comparison to their counterparts from the other three public bodies, i.e. Police Authorities, NHS bodies and Housing Associations. Hence, it can be deducted that the existence of a lack of understanding of the external VfM auditor’s roles by audited bodies is more likely to contribute to the existence of a significant duties performance gap between auditors and these audited bodies.

Furthermore, this study finds that, despite the clear existence of a duties performance gap within the VfM audit environment, the general perspective among most clients and auditors in regard to the VfM audit’s rules to reform the UK Public Sector organisational performance to still be favourable. These findings are in contrast to those of both Power (1994a) in the UK, who was sceptical about the possible social benefits of investment in audit services and Morin (2003), who was not convinced about the VfM auditors' contribution to improve performance in Canadian public institutions. These favourable perceptions of the importance of the VfM audit as scrutiny tools to improve performance are: firstly, it provides the Public and the regulatory bodies with some level of assurance that taxpayers’ money has been spent wisely and that there are scrutiny tools in place to hold accountable those public officers granted an authority to use public resources; secondly, it gives a level of assurance to the senior management of public organisations in regard to how the whole organisation is performing specific tasks; and thirdly, the auditors, being knowledgeable about the ways in which different organisations manage public resources and deliver VfM services, are likely to be able to bring external and independent perspectives, as well as practical experience, to the audited organisations.
This independent perspective is likely to help the audited bodies assess their performance in comparison to other organisations.

6.2.3. Role Conflicts

From the interview data it was found that the existence of the audit expectations and perception gaps in the VfM audit environment gave rise to role conflicts. As mentioned earlier, role conflict occurs when there is incompatibility or disagreement between the auditors' tasks, resources, rules or policies, and organisational members (Dale and Fox, 2008). In this study, three types of role conflict have been identified in the VfM audit environment; First conflicts between the external VfM auditors' capabilities and their roles (role overload conflict). Analysis carried out for this study reveals that this conflict exists in the VfM audit environment because of three main reasons: a) auditors’ lack of competence to carry out the VfM audit and provide the clients with practical and value added recommendations, b) the existence of a high volume of VfM audit required (audit overload) combined with limited dedicated budgets, and c) the existence of a high level of ambiguity associated with the VfM concept. This ambiguity is mainly due to the existence of different interpretations of the meaning of the concept ‘VfM’ and the existence of intangible values in Public Sector services.

Second, the interview data revealed that the existence of role overload conflict (which has been mentioned above) in the VfM audit causes a conflict between the VfM audit roles and requirements and external auditors’ values and professional standards (person-role-conflict). This conflict occurs when the expectations associated with fulfilling a role
conflict with the auditor’s moral, ethical or self-concept. It is apparent from the
interview data that the challenges the external VfM auditors face come from the
incompatibility of professional inclinations and commitments to the audited bodies. The
professional commitment of the auditors to their clients, in general, is to provide them
with a good quality audit in order to improve the credibility of their accounts in the eyes
of the users of the financial statements (Wong, 2005; Baotham and Ussahawanitchakit,
2009). This commitment to the clients could be fulfilled by auditors in the course of
carrying out their audit function via the process of preventing, detecting and reporting
any uncertainties to the relevant users (DeAngelo, 1981; Moizer, 1985; and Porter et al.,
1996). This commitment is applied to the external VfM auditors since the main aim of
the auditors is to provide the audited bodies with a reasonable assessment of their
performance and assure the Government and the Public, at large, of their proper conduct.
In other words, consistent with Ridly (1996), external VfM auditors’ need to convince
the regulatory bodies, the audited bodies and the Public at large, that they are
undertaking an important task and can make a positive contribution to performance
improvement in public organisations through making a proper VfM assessment and
provide the audited bodies with value added recommendations.

Findings in this current study suggest that due to time constraints, budgetary limitations
and lack of the auditors' competency, the ability of the external VfM auditors to make a
good quality assessment, and provide their clients with material findings, is a matter for
concern. Hence, it can be deducted that there is an indication of potential conflict
between the requirements of the VfM audit and the external auditors’ values and
professional standards, which reflects their capacity to fulfil these requirements. A
significant number of the auditors interviewed were conscious of their ability to provide
a balanced assessment of the three VfM audit elements, i.e., economy, efficiency and effectiveness. These auditors also argued that they do not have sufficient time to drill down each individual department in a public organisation and make a detailed assessment, then come out with reliable findings. Instead, these auditors argued, they can only make a general overview of the audited bodies' performance.

In addition, the greatest impact of the existence of unreasonable expectations held by auditors' clients about the VfM auditors' roles has been to cause a conflict between these unreasonable expectations and the ethical standards of the external auditors' profession. These unreasonable expectations about what external VfM auditors should do in terms of helping these audited bodies to develop solutions, to remedy problems and improve performance, are more likely to exert pressure on the external VfM auditors to provide the audited bodies with consultancy services. Although the external VfM auditors are interested in maintaining a positive relationship with the clients to encourage them to cooperate with the auditors to cope with the VfM audit overload, in contrast, complying with the clients’ expectations by providing them with consultancy services is seen as one of the potential sources of role conflict since it can violate the auditors’ professional standards. These findings are consistent with the findings of Assiri (1997) whose research was focused on the internal auditors' independence in the UK Private Sector, and Baotham and Ussahawanitchakit (2009), whose focus was on Thailand.

Third, the existence of practical difficulties, which inhibit the determination of best practice in the VfM audit, has resulted in a conflict between the external VfM auditors and the clients (inter-sender conflict). Findings suggest that these practical difficulties stem from the absence of standards upon which to draw in order to identify those public
services which provide VfM. These practical difficulties give rise to the existence of differing perspectives and potential conflict between the two parties, i.e., auditors and clients, particularly in determining the appropriate measures to assess improvement, which could be accepted by the auditors and the clients, and also on determining what constituted efficiency and effectiveness in public services, and how these two elements could be assessed.

In addition, the findings of this current study confirm the continuing persistent problems identified in the literature (see, for example, Pendlebury and Shreim, 1991; Lapsley and Pong, 2000 and Morin, 2003) and advanced by the majority of participants from both auditors and clients. The greatest impact of the existence of strong professional interests which characterise public sector institutions has been to cause closure, tensions and defensive actions by the professionals in these public institutions. The majority of client participants from the NHS, Housing Associations and Police Authorities argued that the nature of their services requires people with a considerable level of professionalism. Hence, these clients argued that they are in a better position to know more how to improve performance in their institutions than external auditors. Although they are still convinced of the importance of having an independent perspective about their management of public resources, they were conscious of the external auditors’ ability to understand the professional issues embedded in their activities.

Finally, applying standardised or 'one size fits all' performance indicators by the external VfM auditors to assess the performance of the audited bodies, has raised the potential of the occurrence of inter-sender conflict between the external VfM auditors and the clients. The majority of the clients interviewed argued that the external VfM auditors
apply roles, which have been set up by the regulatory bodies to be applied across public sector institutions. These clients were also conscious of the level of flexibility that the VfM auditors exercise to adapt these standardised roles to the specific circumstances of their organisations. They, the majority of clients interviewed, added that they usually apply different ways of managing public resources, or develop certain policies and practices in harmony with their service users. They also added, these practices may not always match those of the external auditors who usually spend a short time in the audited bodies.

6.3. Social factors and the process of role-taking between external VfM auditors and clients

As discussed earlier, the duties performance gap between external VfM auditors and clients, discussed in the last section, has been found to be partly attributable to social factors at various levels. Specifically, these levels are: the personal level, being auditor competence according to their relevant experience, skills and knowledge of the audited bodies’ business; the interpersonal level, being the external VfM auditor-client task interdependence; and the external level, being the ambiguity of the VfM audit process. It has also been found that the process of role-taking between the external VfM auditors and clients implies an interaction and communication between the two parties, i.e. external auditors and clients. This process constitutes an attempt by the external auditors to influence the audited bodies. On the one hand, the auditors, who are the source of the influence, try to make changes in the way public resources are managed by the audited bodies. To do so, the external VfM auditors carry out an assessment of the economy,
efficiency and effectiveness, and then provide the clients with recommendations, preferring their clients to implement these recommendations. On the other hand, the audited bodies, who are the target of influence, must decide either to comply in full, in part or even to completely dismiss the auditors’ influence attempt (Morin, 2001). This argument indicates a power asymmetry in the process of role-taking as it occurs between external auditors and clients.

Based on the process of the role-taking model provided by Katz and Kahn’s (1978) role theory, this section discusses the impact of the interplay of social factors in the VfM audit environment on the power asymmetry between external VfM auditors and clients. Although the process of the role-taking model has been reviewed in detail in Section 3.3, I considered it wise to present, in this section, a summary of this process as a reminder of its appropriateness as an analytical framework with which to achieve the objectives of this study, and to put it in the context of the contribution that this study makes to Katz and Kahn’s (1978) role-taking model.

The process of role-taking consists of two stages of interaction and communication between the focal person, who occupies a given position in an organisation, and his or her role-set. In the first stage, the role-set develops expectations, namely, preferences of what the focal person should do or avoid doing. These expectations are based on an organisation’s roles and regulations. Having developed expectations, role-senders then communicate their expectations to the focal person in an attempt to influence his or her behaviour. Based on the focal person’s perceptions, and his or her reaction to the communicated expectations, the second stage of the process of role-taking will begin.
In this second stage, role-senders have expectations of the focal-person's actions, as well as perceptions of what he or she is actually doing. They correlate both these factors and exert pressure to influence the focal-person to make a real change in behaviour to conform to role-set expectations. Katz and Kahn (1978) identified three factors, i.e., organisational, personal and interpersonal, which may influence the focal person's responses to role-set judgements.

Organisational factors refer to an organisational structure, the technology of the organisation, its formal policies, rewards and disciplinary actions. Personal factors refer to the focal person’s attributes that influence his or her propensity to behave in certain ways, such as their motives and values, defensive preferences, sensitivities and fears. Finally, interpersonal factors refer to the quality of the relationships existing between the focal person and his or her role-set (Stone-Romero et al, 2003; Wickham and Parker, 2007).

From this point of view, as mentioned earlier, the external VfM auditors, during their interactions and communications with the public audited bodies, try to influence these public bodies to avoid over spending and to deliver VfM services. In doing so, the external auditors formulate recommendations and would prefer the audited bodies to implement them. Hence, both parties are not completely independent of each other since they have expectations of one another. As also discussed earlier, the external VfM auditors are believed, by most clients, to lack sufficient knowledge of the audited bodies’ activities. This lack of sufficient knowledge negatively affects the clients’ perceptions of the external auditors’ performance, in terms of their ability to deliver a good quality audit and value added recommendations. Therefore, external VfM auditors need their
clients to cooperate with them and provide them with reliable evidence, without which the auditors’ task is likely to fail. The VfM audit is also a statutory requirement in law and almost every public organisation, or private agencies, who are delivering public services is subject to a VfM audit as a scrutiny tool with which to assess the economy, efficiency and effectiveness of the use of public resources.

External auditors expect the audited bodies to manage public resources properly. As part of the process of a VfM audit, the auditors suggest recommendations to be implemented by the clients in order to improve performance. Clients also have expectations about the auditors’ assessment of the VfM factors (economy, efficiency and effectiveness). These expectations might be about the adequacy of their assessment, the practicality and relevance of their recommendations or the usefulness of the whole VfM audit process in improving performance in their institutions. Clients are not passive recipients of the auditors’ expectations and influence attempts, so they are more likely not to accept the judgement of the auditors without reservations if they do not believe that their judgements are adequate or their recommendations have value added to their organisations. Instead, they can try to modify these expectations and recommendations through a process of negotiation with their auditors in order to bring about conformity between the two parties’ expectations (Stone-Romero et al, 2003). These negotiation processes are influenced by the interplay of the social factors, mentioned above, in the VfM audit environment.

Based on the interview data, this study presents a modified version of Katz and Kahn's (1978) role-taking model by extending it in two main ways. First, their model identifies the significant impact of the focal person's individual attributes (e.g., motives or values)
on the role-taking process. However, Katz and Kahn do not explicitly examine the influence of the attributes of the role-set (role-senders) on the process of role-taking. Therefore, this current study contributes to the process of the role-taking model, provided in Katz and Kahn’s (1978) role theory, by extending their model to examine the impact of these negotiation-related factors on the process of role-taking.

Second, Katz and Kahn (1978) discuss the impact of the authority or power that members of the role-set (role-senders) may have on the process of role-taking. They define power as the authority which could be taken for granted by the empowered person in an organisation to influence his or her focal person. Yet they do so without considering: a) its interplay with the other social factors, which are shown in Figure 3, and b) how these factors could moderate its impact on the focal person’s decision to comply with the sent-role. My study thus extends the organisational role-taking model by examining how these factors could strengthen or weaken the power granted to the role-set and how these factors could curtail or advance the VfM auditors’ influence in regard to the clients.
A conceptual model presenting the modified version of Katz and Kahn’s (1978) role-taking model is summarised in Figure 3, which presents the influence of social factors at the personal, interpersonal and external levels on the process of role-taking which occur between the VfM auditors and the clients. It shows how these factors can shape the second stage of the process of role-taking, namely the influencing process between the VfM auditors and the clients. In this diagram, the double arrow indicates that these social factors are interrelated and should be considered in conjunction when discussing their impact on the power asymmetry between the external auditors and the audited bodies. For example, the external auditors’ lack of sufficient knowledge about Public Sector organisational activities can undermine their competency to conduct a good quality VfM audit and to provide the clients with value added recommendations. It can also enhance the influence of task interdependence on power asymmetry in external auditors-clients...
relationships since the auditors’ success is more likely to be heavily dependent on the reliability of the evidence provided to them by the audited bodies.

The following subsections present a discussion on the impact of these factors (mentioned in Figure 3) on the effective performance of the VfM audit in UK public sector institutions and the way in which such factors can enhance or mitigate the amount of power that the external VfM auditor may have in regard to their clients.

6.3.1. Power asymmetry in the context of the VfM audit

Based on Morin’s (2001) argument (see the previous section) in regard to the use of power in the process of the VfM audit, the discussion in this sub-section begins by examining the interplay between the auditor's power and authority and the influence both of these bring to bear on auditor-client relationships. Power is defined as the inferred potential of one person (the agent) to cause another person (the target) to comply with the agent’s wishes (Bass, 1990); whereas influence behaviour is defined as the agent’s actual behaviour used to change the target’s behaviour or attitude (Raven and Rubin, 1983; Stahelski and Paynton, 1995). Pfeffer (1981) and Dahl (1957) argued that, in a social context, power could be transformed into authority, which is likely to strengthen the influence of certain members in an organisation over other members. According to such reasoning, auditors can generally be considered to have power in regard to the audited bodies if they can influence these bodies to comply with their recommendations, and then make a real change in the way they manage their accounts.
In a financial audit, the balance of power is likely to be weighted towards the client, while auditor compliance to client expectations is said to be partially a function of the relative power and influence of the clients over their auditors (Hudaib, 2003). Goldman and Barley (1974), Nichols and Price (1976) and Dunn (1996) all posit that, in a financial audit, the client position is stronger than that of their auditors since the clients can easily find a replacement auditor, but auditors may encounter difficulties in replacing audit clients.

However, those external auditors carrying out VfM audits in the UK Public Sector are members of official audit bodies (e.g. the National Audit Office or the Audit Commission), or appointed, by the Audit Commission, from the private accounting firms to carry out the VfM audit in the Public Sector institutions. This indicates that the clients’ power, in terms of hiring and firing the external VfM auditors (e.g. on the ground of audit fees) is limited, and that the balance of the influence of power in such auditor client relationships is, in fact, likely to be on the auditors’ side. This argument, concerning the influence of the VfM auditors over their clients, supports that put forward by Morin (2001), who argues that the power of the VfM auditors comes from two main sources: first, because they represent formal audit bodies, which are linked to the Government, and, second. because the audit tool has been historically recognised as a control function. Thus, it might convincingly be argued, following Pfeffer (1981), that this distribution of power between the external VfM auditors and the clients has become legitimate over time, and that clients expect a certain pattern of auditor-exerted influence to be applied in order to achieve recommendation compliance and implementation.

However, the interview data reveal that, although the statutory power granted to the VfM
auditors can enhance their influence over the clients, the auditors should not take such power for granted since it can be enhanced or weakened as a result of the influence of other social factors at the personal, interpersonal and external levels (see Figure 3). The following sections discuss the impact of these social factors on the power asymmetry in VfM auditor-clients relationships.

6.3.2. Personal factors and power asymmetry in VfM auditor-client relationships

Personal factors, such as the external VfM auditors’ competence according to their relevant skills, experience and knowledge of public bodies’ activities, has been found to have a significant influence on the balance of power between the external VfM auditors and the clients.

Based on the identification of the expert power by French and Raven (1959), it can be deducted that both parties, i.e., the external VfM auditors and the clients, can have some sort of power, apart from their statutory power, over one another. This power emanates from each party's professional experiences. As consistent with Mechanic (1962), the analysis carried out for this study reveals that the external VfM auditors’ clients are not merely passive recipients of the auditor’ expectations, they also have power derived from their professional knowledge, experience of the work process and access to information that others, i.e., external VfM auditors, may not have. According to the empirical data, clients would neither comply with auditor influence attempts, nor implement external VfM auditors’ recommendations if they do not have confidence in the auditors’ ability both to competently carry out an accurate VfM audit assessment and
to formulate practical and value added recommendations. Hence, as concurred with
Pfeffer (1981), it can be suggested that the VfM auditors’ power quotient can be
determined by their ability to convince the audited bodies, both that their tasks are
absolutely necessary in order to achieve improved client performance and that they are,
as professionals, competent to conduct the VfM audit effectively. As Pfeffer (1981)
elaborated:

“To have an important and critical function, but to fail at it, will not provide much
power, it is important for actors to accomplish their tasks, but it is more important
for them to convince others within the organisation that their specific tasks and
their abilities are substantial and important” (p.8).

In the same vein, Tedeschi et al. (1972) identified four characteristics of the source of
influence, which are likely to enhance his/her influence over the target: i) the status and
ii) the prestige of the source, on the one hand, and iii) the attraction and iv) the esteem
for the source, on the other hand. Morin (2001) argues that the status of the VfM auditors
could be defined as the authority associated with the auditors over their clients. This
authority could facilitate the VfM auditors’ influence process. In terms of the auditors’
prestige, attraction and esteem, Morin argues that these characteristics are linked, since
all of them refer to auditor competence. Prestige has been defined as the auditors’ skills,
knowledge and experience in identifying performance deficiencies within the audited
bodies. Esteem refers to the degree of respect granted to the auditors by their clients. The
extent of such respect depends on the ability, native intelligence, or special experience
possessed by the auditors. Finally, auditor attraction is defined as the benefit that the
auditors’ clients might derive from their auditors (Morin, 2001: 101).
In the context of a VfM audit, it can be assumed that the more native intelligence, ability to identify deficiencies, or special experience the auditors have, the more respect they will receive from the clients. This is due to enhanced client opportunity to benefit from the VfM auditors, and the consequent greater likelihood for clients to be positively influenced by these auditors to make a real change in their management of public resources, in line with auditor recommendations.

The data analysed in the last Chapter indicates the existence of an audit perceptions performance gap regarding the auditors’ competence to conduct a proper VfM audit. Table 3 shows that the most significant variations between the two parties, i.e., auditors and clients, were on the VfM auditors’ skills, experience and their knowledge of the public bodies activities.

In terms of the skills needed by the external VfM auditors, the analysis in the last Chapter reveals that there is a significant difference between the skills that auditors need to undertake a financial audit and those needed for a VfM audit. In a financial audit, the auditors need to have measurement and communication skills since they need to measure issues relate to economy and efficiency (Eastern, 2006). To measure economy, the auditors need to examine the cost of public resource acquisitions. Efficiency is the relationship between the amount of money used and the quantity of outputs (e.g., number of patients treated in a hospital). However, the measurement of issues relating to effectiveness is more difficult since this measure is concerned with the quality of the services delivered, as well as the issue of whether the audited bodies achieve their intended objectives. Such objectives are mostly imprecise and difficult to be measured in monetary terms (Pendlebury and Shereim, 1990). Hence, external VfM auditors need to
have evaluative skills as well as measurement and communicative skills. They need to use their logic and common sense since there is a high level of subjectivity in their task. The empirical data shows that the majority of the external VfM auditors, particularly auditors from the private accounting firms, are qualified and trained as accountants and financial auditors, before beginning their career in VfM auditing. These accountancy and financial audit backgrounds have strengthened the external VfM auditors' competency in terms of measurement and communication skills but, their competency to assess effectiveness, which is mainly based on evaluative skills, is a matter for concern. This proposition is supported by the majority of interviewed clients from all the audited bodies involved in this study (see Table 3).

In respect of the VfM auditors’ knowledge and experience, research into auditing (Solomon et al., 1999; Dunn and Mayhew, 2004) suggests that auditors who are experts in the audited bodies’ complex business have the opportunity to gain relatively more specific knowledge and are, thus, able to provide the audited bodies with a good quality audit, rather than those auditors who specialise in less complex and generic business. Prior research also found that industry specialist auditors have more accurate non-error frequency knowledge (Solomon et al. 1999) and are more effective when assessing inherent risk levels for accounts specific to the industry in which they specialise (Taylor, 2000).

In the context of the VfM audit, the interview data reveal that this type of audit requires much more than knowledge of its own theory, which is mostly obtained in an educational context. It also requires an understanding of the structure of the audited bodies, the nature of their activities and the needs of the society in which these audited
bodies are operating. The majority of the clients interviewed argued that in-house auditors from the National Audit Office and the Audit Commission, since some of them have worked as professionals in the Public Sector organisations then started their careers as VfM auditors, are more likely to have the relevant technical skills and specific knowledge of the public bodies’ activities than their counterparts from private accounting firms. The present study finds that the majority of the external VfM auditors, particularly auditors from private accounting firms, have obtained their knowledge from both accountancy qualifications and their experience in the financial audit. This knowledge and experience however, are not sufficient to make them experts in VfM auditing to the extent that they can influence the audited bodies’ decision with regard to implementing VfM audit recommendations.

A close examination of the results of the interviews, which are presented in Table 3, indicates that this financial background of the external VfM audit has worked in two opposite directions in terms of improving auditors’ competency. On the one hand, it helps to make an accurate assessment of issues such as economy and efficiency since, as mentioned earlier; the assessment of these two elements is based on simple accounting measures. On the other hand, consistent with Flint’s (1988) and Morin (2001) arguments, the external VfM auditors’ financial background obscures the fact that there are two disciplines in the VfM audit, and that the scope of auditing should extend far beyond financial accounts. The performance indicators, on which external VfM auditors base their assessments, are not only financial measures, and the requested knowledge is not for accounting. Hence, this financial background has influenced, in some way or another, the external auditors’ assessment of effectiveness. It colours their thinking and undermines their assessment of any other intangible values which are usually embedded
in public services. These intangible values could relate to people’s feelings as a result of public services, i.e., whether they feel safe or cared for.

A significant number of the interviewed clients; particularly clients from the NHS bodies and Police Authorities, perceive that the emphasis of the current external VfM auditors is mostly inappropriate, and the auditors are less likely to give enough attention to the intangible values of the public services. In addition, consistent with Neuman et al. (2008), these clients questioned the ability of the external VfM auditors to assess these intangible values.

Based on the above analysis and the literature reviewed, it could be suggested that, unlike Private Sector businesses, where the success of their outcomes could be judged mainly on the sole criterion of ‘profitability’, the outcomes of Public Sector organisations should fulfil, alongside financial issues (e.g. financial saving), is the general public’s social and emotional needs. This study’s analysis has revealed that there are both tangible and intangible values for the Public Sector professions. Tangible, explicit values can be captured and understood by the external VfM auditors who have a business-oriented stance and can base their judgements on ‘hard evidence’, for example, the assessment of a ward’s performance in a hospital on the basis of the number of patients dealt with compared to the number of nurses in that ward, or the number of crimes detected compared to the number of the police officers involved. However, assessing the effectiveness of the Public Sector bodies involves considering whether these bodies have achieved their objectives and fulfilled the general public’s needs, which are likely to involve intangible values such as the emotional interests of the patients and their need to be cared for or the Public’s need to feel safe.
Thus, the combined results of this study, and other relevant previous studies, indicate that the external VfM auditors’ competency, relevant experience and sufficient knowledge of the Public Sector institutions are all important areas for mandatory improvement in order to strengthen the VfM auditors’ power and influence over their clients and to enhance the impact of the VfM audit in the UK Public Sector.

6.3.3. Interpersonal level factor and power asymmetry in the VfM auditor-client relationship

Having discussed those factors at the personal level, which affect the external VfM auditors’ ability to influence the clients’ decision in terms of complying with VfM auditors’ recommendations and making real change in the deployment of public resources, this section presents an analysis of the interpersonal level factor which respondents perceive as hindering the VfM auditors’ influence towards the clients. The interpersonal level factor includes the existence of task interdependence between external VfM auditors and their clients.

In the context of accounting, the financial statements and auditor reports are jointly produced by accountants and auditors (Dodd et al., 1984), since both parties are likely to share a legal liability risk (Palmrose, 1991). This also leads to mutual interests between them. This mutual interest arises from the auditor’s desire to be re-appointed by the client (Simunic, 1984), and from the client’s wish to minimise the audit fees, and to use the audit report to attract more investors (DeAngelo, 1988). This mutual interest can make both auditor and client prefer an unqualified audit opinion, since any other result in
an accounting environment is more likely to result in severe consequences for both parties (Gibbins et al., 2000).

The analysis carried out for this present study reveal that this mutual interest applies to the relationship between the external VfM auditors and the clients since the VfM audit reports are jointly produced by each party, with both external auditors and clients interested in obtaining a satisfactory conclusion. According to the interview data, obtaining a VfM audit is a statutory requirement for Public Sector institutions, and the management within these bodies must supply a good report from the external VfM auditors in order to assure the Government and taxpayers of their satisfactory performance. Auditors are also required to sign an opinion on whether the audited bodies are currently achieving their objectives and delivering VfM services. However, the interview data reveal that external auditors have neither sufficient knowledge of the Public audited bodies' activities nor enough time to review the reliability of the evidence provided by the audited bodies. Therefore, their task in terms of the VfM audit conduct is heavily dependent on the level of cooperation provided by the clients. The interview data reveal that this mutual interest between both parties, i.e., the external VfM auditors and their clients, can undermine the statutory power of the auditors and their influence over the clients. These findings resemble those reached by Somech and Drach-zahavy (2002), who showed that social relations commonly entail task interdependence between the parties. A depends upon B if the achievement of A’s task is facilitated by appropriate actions on B’s part. They added that by virtue of mutual dependency, it is more or less imperative for each party to control or influence the other’s conduct since each party can facilitate or hinder the other’s task.
6.3.3.1. **VfM audit overload and task interdependence**

It is apparent that the existence of VfM audit overload in the UK Public Sector, as revealed by the analysis carried out for this study, has intensified the negative impact of this interpersonal factor ‘task interdependence’, both on the external VfM auditors’ statutory power and on their influence over the clients. The interview data reveal that, because of this audit overload, the external VfM auditors usually do not have enough time to ‘drill down’ into each individual department in the audited bodies to identify which of these departments is overspending or failing to achieve its objectives. Thus, the auditors can only make a general overview, based on the evidence provided by the audited bodies, of the audited body's current VfM status. This general overview is insufficient to convince the clients of the reliability of the VfM auditors' findings and of the value added by their recommendations, which is, according to Pfeffer’s (1981) elaboration of the sources of power in organisations, one of the most important determinants of the amount of power held by external VfM auditors in connection with the clients. The analysis further shows that there is still scope for a lot more work to be done in regard to specific services and departments, and it is for an audited body itself to first identify those particular sections which are overspending, or not achieving their objectives, and then to provide the auditors with reliable evidence with which to do a focussed piece of work on these specific departments.
6.3.4. External level factor and power asymmetry in the VfM auditor-client relationship

The external level factor includes the ambiguity of the VfM audit process. The analysis carried out for this research reveals an apparent link between the high level of ambiguity associated with the VfM audit processes and the power asymmetry in VfM auditor-client relationships. Awadalla (2006) argues that the ambiguity of accounting standards can affect the ability of the auditors to resist the audited bodies’ management pressure when there is disagreement over audit issues. He added that, whenever the auditing standards are unclear, the balance of power becomes in favour of the audited bodies over the auditors.

The interview data reveal the existence of a high level of ambiguity surrounding the process of the VfM audit. The main source of this ambiguity is the multiple potential interpretations of the term ‘VfM’ since there is no defined professional standard of VfM provision in the public services. Hence, each person perceives this term ‘VfM’ according to his or her motives and needs.

Consistent, therefore, with Peiró and Meliá (2003), who find the ambiguity of the rules in an organisation to be negatively correlated with the power asymmetry between superiors, subordinates and peers in that organisation, the interview data reveal that due to the VfM audit environment’s intrinsic ambiguity, external VfM auditors’ performance has not reached a sufficient level of influence over the audited bodies to ensure compliance with their recommendations and real change in the way these audited bodies manage public resources. It is easy for the auditors, when carrying out a financial audit, to argue with the audited bodies and challenge them if there is any misconduct in the
financial statements. However, in the VfM audit, the audited bodies provide the external auditors with evidence about their conduct. The audited bodies also provide them with excuses or reasons when they have been overspending in some departments in their organisations. Subsequently, the external auditors must make a professionally-informed assessment based on the evidence provided by the audited bodies, and finally make recommendations on how to improve their performance. However, the interview data show that it is extremely difficult for external auditors to challenge the audited bodies, and to establish facts or culpability when they have disputes with the audited bodies over VfM audit issues.

These findings, regarding the impact of the ambiguity on the influence of the VfM auditor, support to some extent, those put forward by Gibbins et al. (2001) and Johnstone et al. (2002). For example, Gibbins et al. (2001) found that when the Generally Accepted Auditing Standards (GAAS) are unambiguous, the auditor ability to develop a variety of plausible, less aggressive alternatives is likely to improve. As a result, auditors will be in a better position to negotiate toward integrative alternatives which satisfy the clients and are defensible to third parties. Consequently, their influence over their clients will improve. The findings of this current study also resemble, to a greater extent, the findings of Johnstone et al. (2002), who argued that it is important for the auditors to provide their clients with less aggressive financial reporting alternatives so that the clients themselves do not propose an overly aggressive method. Johnstone et al. further found that auditors are likely to provide these sorts of alternatives, to protect themselves and their clients from potential litigations, when an unambiguous interpretation of the Generally Accepted Accounting Practices (GAAP) is unavailable.
6.4. Reflections on the conclusions drawn from this research

This study aims to provide a better understanding of the practices of the VfM audit, and its ability to improve performance in the UK Public Sector organisations. The explanations and discussions are concerned with the external VfM auditors’ and their clients’ (professionals and Operational Managers) expectations and perceptions of the practices of the VfM audit. The concerns are also to show how the interplay of social factors in the VfM audit environment at the personal (the competence of the auditors based on their relevant experience, professional skills and understanding of the nature of Public Sector organisations’ activities), interpersonal (the existence of task interdependence between the VfM auditors and their clients) and the external levels (the intrinsic ambiguity of the process of the VfM audit), can enhance or hinder the effective performance of the VfM audit.

To provide deeper insights into these research issues, mentioned above, the process of role-taking provided by Katz and Khan’s (1978) role theory was adopted as a theoretical framework for this study. The Katz and Kahn’s model is more beneficial as a framework for this study, for many reasons. Katz and Kahn use the concept of roles in a more convincing way. VfM auditors roles are formed through an evolving, interactive and dynamic process of negotiation, which occurs during interaction and reflects the preferences of the external VfM auditors as well as their clients. The Katz and Kahn’s role-taking model was also found very useful in explaining the power asymmetry in the process of the VfM audit. It helped to understand how the influence of social factors in the VfM audit environment, at the personal, interpersonal and external levels, can shift the balance of power towards the auditors’ clients’ side in regard to the auditors. It also
helped to understand to what extent the professionals and Operational Managers resist, modify, or accept the role sent by the external VfM auditors. Overall, the Katz and Kahn’s role taking model allows comparisons between external VfM auditors and their clients to be made (e.g. whether clients conformed to auditors’ expectations and why).

The methodological framework for this study was based on a qualitative approach and semi-structured interviews as a method of data collection. Employing qualitative methodology suggests that it can be contrasted with positivists ‘artificial’ methods, such as laboratory experiments that are incapable of capturing the meaning of the external VfM auditors’ and their clients’ actions. These beliefs have estabilished a qualitative approach as an appropriate methodological framework for understanding external VfM auditors’ and their clients’ live experience, and for providing vital information regarding their expectations and perceptions of the effective performance of the VfM audit, in terms of its ability to improve performance in Public Sector organisations. Thirty nine participants from both parties, i.e. external auditors and professionals and Operational Managers, were interviewed during multiple field visits. Face to face interviews provided extremely rich sources of data and yielded a better understanding of the VfM auditors’ and their clients’ real lives, and how they perceive the effective performance of the VfM audit.

From the perspectives of both external auditors and their clients, our understanding of the practice of the VfM audit and its effective performance, in terms of improving performance in the Public Sector organisations, has been enhanced. The next subsection presents my reflections on the practices of the VfM audit.
6.4.1. Reflections on the practices of the VfM audit

As discussed in the literature review chapter, the Conservative Government came to power in the late 1990s with promises to improve institutional performance in the UK Public Sector through the emphasis on the VfM audit. These promises were also explicit in the manifesto of the Labour Government, which succeeded the Conservative Government in 1997 (Lapsley and Pong, 2000). In light of the results obtained by this current study, I believe that these promises are kept in part. The results that have emerged from this current study indicated that, although the VfM audit has been perceived as an important tool to improve performance in the UK Public Sector organisations, it has not yet been internalised in the public audited organisations as initially planned. It was decided, by the regulatory bodies, that the VfM audit should play a fundamental role in maintaining confidence in Public Sector spending and improving performance in the UK Public Sector organisations by making them more economical, more efficient and more effective. This fundamental role could be obtained through, (a) alerting the Public, senior management and the regulatory bodies to weaknesses in the management of Public organisations, thus making managers accountable for the consequences of their administrative actions and, (b) facilitating performance improvement in the Public Sector organisations through providing these organisations with recommendations, which are practical and relevant to the nature of the audited bodies’ activities.

According to the results obtained by this current study, there were significant incongruences between the perceptions held by the VfM auditors, and the audited
organisations, regarding the current VfM auditors’ capacity to improve performance in the audited organisations. This performance gap was mainly due to the external VfM auditors’ lack of competence to undertake a balanced assessment of the three VfM audit elements (economy, efficiency and effectiveness), and then provide the audited organisations with relevant and practical recommendations. Hence, in light of this result, I proposed that the capacity of the current VfM auditors to bring this vision of role, mentioned above, into reality and influence the audited organisations to make a real change in the way they manage public resources and improve performance, is a matter for concern.

My Thesis has brought to light two important factors at a strategic level, which I believe did not have sufficient thought during the foundation of the VfM audit, although these factors are more likely to play a fundamental part in undermining the image of the VfM audit and hinder its effective performance in regard to its ability to improve performance, and make a real change in the way Public Sector organisations manage Public resources. These factors clearly emerged when I examined the existing literature on the VfM auditing practices in general, and when I got an insight into this study’s participants’ perceptions of the VfM audit performance.

Firstly, the fact that no specific professional qualifications are required to be held by the VfM audit practitioners. During the review of the official documents regarding the theoretical foundation of the VfM audit, and also the review of the participants’ perceptions of this current study, I noted that the VfM audit has borrowed the essentials of its theoretical foundation from the Financial Statements audit. There are no specific training programs where candidates have to pass a test to be professionally qualified as
VfM audit practitioners. I also noted that the VfM auditors do not have specific professional qualifications apart from their qualifications as accountants, or auditors, of financial statements. This research has confirmed that these professional qualifications, which are inspired by those of the Financial statements audit, are not relevant to the VfM audit. The analysis carried out for this current study reveals that the VfM auditors perform a wide range of roles. They have to focus on issues far beyond a mere financial audit, undertaking instead a performance audit, which is based, to a great extent, on subjectivity. This lack of relevant professional qualifications makes the task of the VfM auditors more difficult and causes conflict as a result of role overload associated with the VfM audit.

In light of the results obtained by this current study, I believe that it is difficult for auditors who qualified as accountants to eliminate, or to minimise, the influence of their accountancy background, focusing more on using their common sense, given the considerable disparity between a VfM audit and a financial audit. It also seems difficult for those auditors to have a feel for the intangible values which dominate Public Sector services. In my view, it is precisely in these areas where potential conflict can arise between VfM auditors’ values and capabilities and the requirements of the VfM audit, since auditors are required to understand the nature, structure and institutions in which they apply the VfM audit. Auditors need to recognise that the assessment of Public Sector performance is mostly based on an educated judgement, which is difficult to quantify.

Secondly, it is obvious, according to this current study, that the roles required by the VfM auditors are not reconcilable with one another. As part of the VfM auditing
practices, auditors are required to take part in controlling the performance of Public Sector organisations by reporting on regularity, and identifying unacceptable practices in the way these organisations manage public resources, and whether proper arrangements are in place to secure VfM in the use of these Public resources. This task seems to completely reconcile with the traditional approach of auditing practices (audit of financial statements), in general, where auditors usually confront the audited organisations by identifying misconduct and material errors in the financial statements of these organisations and then report them. According to the analysis carried out for this current study, I believe that there is no denying that the VfM auditors have fulfilled this requirement regarding their assessments of the audited organisations compliance with regulations, accurate and truthful communication and service delivery. In so doing, auditors were successfully shown themselves to be guardians of public resources and controllers of Public Sector organisations’ performance.

However, VfM auditors are also required to participate effectively in encouraging change and improvement in the audited public bodies through providing these bodies with recommendations, which are practical and relevant to the nature of the audited bodies’ activities. This means that the VfM auditors need to earn the confidence of the audited bodies so that they accept the fact that the auditors could participate actively in the process of performance improvement of the audited bodies. Auditors also need to establish a cooperative relationship with the audited bodies and change the traditional image of the practices of the VfM auditing in the eyes of the people in the audited bodies, to the extent that these people could consider the auditors as critical friends rather than auditors whom their priority is to identify misconducts and then report them.
In light of the results obtained by this current study, I proposed that the VfM auditors have yet to demonstrate their capacity to earn the confidance of the Public audited bodies and establish this sort of cooperative relationship with them. The Public audited bodies also have to be willing to change their preconceived image of auditors whose main role is to report on regularity. My analysis has brought to light several factors, which I believe are likely to undermine the trustworthiness of the audited bodies towards the VfM auditors and prevent the establishment of a cooperative relationship between the VfM auditors and the audited bodies. A) The issuance of a qualified audit report, when the VfM auditors are not satisfied with the way Public funds have been managed, would play an important role in controlling performance of the audited bodies but, at the same time, would yield hostility towards the auditors and trigger a defensive reaction within the audited bodies. These hostile and defensive reactions are more likely to prevent the establishment of a cooperative relationship between the auditors and the audited bodies. B) The existence of strong professional interests in the Public sector organisations is more likely to cause persistent problems between the auditors and the audited bodies. Most of the Public services require highly skilled professionals and it is unlikely that these professionals would implement recommendations issued by the VfM auditors on the grounds that these auditors do not have a sufficient understanding of the nature of Public services. C) The analysis clearly indicated that the audited bodies are not totally convinced of the VfM auditors’ competancy to carry out a balanced assessment of the VfM audit elements (economy, efficiency and effectiveness) and then provide these audited bodies with relevant and practical recommendations.

The analysis so far has brought to light a major contradiction in the way the Public audited bodies perceive the usefulness of the practices of the VfM audit to their
organisations as a result of the VfM audit. While the audited bodies are in favour of this type of audit, they are not confident that the current VfM auditors have the capacity to carry out a balanced assessment of the main VfM audit elements, i.e. economy, efficiency and effectiveness, and then provide them with relevant and practical recommendations. This contradiction brings to light the following fundamental question; what contributions the VfM audit has made to the audited bodies in the UK Public sector? In light of the results obtained by this current study, I believe that the audited bodies tend to use the VfM audit reports more as reference instruments than for other purposes. Given the fact that the VfM auditors do not have sufficient power, as a result of the impact of social factors at the personal, interpersonal and external levels, which I have discussed earlier in this chapter, to oblige the audited bodies to comply with their recommendations, I propose that the audited organisations tend to use the VfM audit reports to provide a level of assurance to the Government, the regulatory bodies, senior management, and the Public at large, that Public resources have been managed properly, than as an instrument for change and improvements. If the ultimate purpose of the VfM audit is to provide such a level of assurance, there is no doubt that it has done so. However, if the ultimate purpose of this type of audit is to be used as an instrument for change and improvements, I believe that this will necessitate a tremendous change in the audited bodies’ perception of the utility of the VfM audit, and this change can hardly be expected to happen in the near future.
6.5. Suggestions for improving the VfM audit performance

In the last section, I discussed issues at the strategic level that might undermine the effective performance of the VfM audit. This section is to discuss issues at the pragmatic level, which the VfM auditors might consider in order to improve the performance of the VfM audit.

Firstly, Public Sector organisations have different objectives based on individual agendas and local needs. They provide a wide range of services, meeting needs of varying importance and the Public may give more priority to one service over another. Professionals in these public organisations may also have specific ideologies, innovations, apply different ways of managing their affairs or develop certain policies and practices in harmony with their service users. These practices may not always match those of the external auditors who are, according to the interview data, applying standardised and ‘one size fits all’ roles. These variations have caused tension between the two parties, i.e., external auditors and clients, and undermined the effective performance of the VfM audit. Therefore, allowing the external VfM auditors themselves more flexibility to make professional judgements and adapt their roles to the circumstances of each individual organisation, is more likely to improve the audited bodies' perspective of its usefulness to improve these bodies performance.

In addition, as mentioned earlier, the majority of the professionals and Operational Managers participating in this study expect the external auditors to be involved in implementing solutions and developing actions to rectify problems and improve the Public Sector's organisational performance. However, these expectations have been
perceived by the auditors interviewed as unreasonable, since involving external auditors in these activities can jeopardise their professional independence. This argument shows that a significant number of the clients lacked sufficient understanding both of the scope of the VfM auditors’ role, and the extent to which the auditors may collaborate with the audited bodies to set up actions to improve performance. This lack of understanding affects the client participants’ perceptions of the VfM audit’s performance and contributes to the existence of a performance perceptions gap between the auditors and the clients. Hence, improving the audited bodies’ awareness of the scope of the external VfM auditors, through providing them with more clarifications about the scope of the VfM audit, is more likely to improve their perceptions of the performance of the VfM audit.

The research in my Thesis also indicates strong criticisms regarding the accountancy background of the external VfM auditors since it colours auditor thinking and influences their ability to recognise any other values. Also empirical data collected for this research reveals numerous intangible values embedded in public services which include values such as people have need to feel safe or cared for. These values cannot be assessed based on purely monetary terms.

In addition, one of the personal attributes highlighted in this Thesis, and affecting perceptions about the VfM audit’s utility, is the external VfM auditors’ lack of competence. This lack of competence largely emanates from the auditors’ lack of relevant skills and sufficient knowledge of the nature of public organisational activities.
Therefore, continuing professional development of the external auditors is more likely to enhance their competence to undertake a VfM audit and provide the audited bodies with value added recommendations. This professional development could be obtained if the audited regulatory bodies consider: a) setting up dedicated education courses and training programs, and ensuring that all the VfM audit practitioners have attended these programs and obtained the relevant qualifications, and b), reviewing these courses and training programs from time to time to ensure their relevance to the constant and rapidly changing ways in which public organisations deliver their services, and c), encouraging the audited organisations to recruit more professionals with first-hand experience of working in Public Sector organisations. These professionals could be used as consultants to improve the external VfM auditors’ knowledge about the nature of public organisations’ activities and encourage them to have more regard for the intangible values embedded in public services.

Another problem highlighted in this Thesis, which affects perceptions of the VfM audit performance, is the existence of VfM audit overload in the UK Public Sector. Hence, emphasising on the quality than on the quantity of the VfM audit by the regulatory bodies is more likely to bear fruit in terms of improving the effective performance of the VfM audit.

6.6. The contribution of this research project

Having presented the contribution made by this Thesis to the process of the role-taking model provided in Katz and Kahn’s (1978) role theory (see Section 6.3 for details), this
section discusses the contribution that this Thesis has made to the literature as it also contributes towards the body of work on VfM auditing in a number of ways.

First, the existing literature on an audit expectations gap is limited since it has centred on the Private Sector audit perspective and ignored the Public Sector (see section 2.5 for details). As the broad auditing aim for both sectors is to improve the credibility of the audited bodies’ account in the eyes of the users of that account, it is important to investigate a possible audit expectations gap in the Public Sector. Therefore, this study contributes to the growing body of knowledge on an audit expectations gap by extending this knowledge into the Public Sector.

Second, the literature on an audit expectations gap has focused on identifying the existence of such a gap as it occurs between the auditors and the users of the financial statements, with regard to the duties and responsibilities that should be fulfilled by the auditors. However, the same literature dismisses the audited organisation’s perspective. It is important to examine the perspective of the audited organisations since these people (in audited organisations) are usually involved directly in the auditing processes and have the power to undermine these processes by not co-operating with the professional auditors. In addition, by examining these people’s (in audited organisations) views of the VfM audit, the auditors are likely to be able to adapt their roles to the characteristics and context of these organisations rather than imposing a predetermined role (Morin, 2003). Therefore, this Thesis has contributed to the literature on an audit expectations gap by providing a better understanding of the process of the VfM audit as expected and perceived by the external auditors and the clients (professionals and Operational
Managers from the UK public institutions), and by identifying the existence of audit expectationss and perceptions performance gaps between the two parties.

Third, previous studies on the audit expectationss and perceptions performance gaps had sought to identify the existence of a gap, either between the auditors’ and the clients’ (users of the financial reports) expectationss, or between their perceptions of the auditing utility without identifying a correlation between these two types of gap. Therefore, this Thesis has contributed to the literature on an audit expectationss gap by identifying a negative correlation between unreasonable client expectationss of the external auditors’ role in providing a VfM audit, and the expectationss from the same clients in regard to the utility of the VfM audit itself. The majority of client participants expect the external auditors to provide practical actions and to help in implementing solutions to problems, while improving performance in their organisations. These expectationss have been perceived by the external auditors as being unreasonable since they are likely to jeopardise their independence vis-à-vis the audited bodies. This Thesis argues that it is precisely those unreasonable client expectationss which negatively affect the clients’ perceptions of the VfM audit’s utility.

Fourth, previous studies on the audit expectationss gap emphasised the investigation of simple gaps by using questionnaires to collect numerical data, for example, gathering quantitative data to determine the impact on the Public of attending an auditing course and reading specific audit publications as a means to alter student and public expectationss of auditor roles. Positive-based researchers’ use of economic models ignores what is actually happening in the real world of audits. Thus, by adopting a qualitative methodology approach that allows the use of interviews to elicit the actual
experiences of those actors who are directly involved in the VfM audit process and are willing to participate and articulate that experience, this study was able to overcome the rigidity and limitations of a positivistic methodology in regard to the audit expectationss gap. As a result of the present study, a holistic, richer and clearer picture of the practice of the VfM audit has emerged.

In addition, this study provides an insight into the main sources and consequences of various types of role conflict arising during the process of the VfM audit. This has been achieved through a combination of a qualitative methodology and the process of role-taking models (based on Katz and Kahn’s (1978) role theory) as a theoretical approach. This innovative methodology both acknowledges the complex interrelationships of variables (which in turn affect the process of role-taking between external auditors and the clients), and encompasses factors ranging from general to specific (i.e. at the personal, interpersonal and external levels). The main sources of such conflicts are the influence of public service user expectations on the processes of the VfM audit’s inherent ambiguity, the external auditors’ lack of competence, and auditor-auditee task interdependence. The influence of these social factors has resulted in more tensions between the few key players in the VfM audit environment. It has also resulted in more tensions between the external auditors’ values and professional standards and the requirements of the VfM audit. In other words, this Thesis has identified that a professional standards’ and values’ gap exists in the VfM audit environment. Audit as a profession has always been linked to control and has gained its credibility through the auditors’ objectivity, independence, professional competence and the ability to provide their clients with accurate assessments. However, because of the impact of the above-mentioned factors on the process of the VfM audit, these professional characteristics are
less likely to be applied to VfM auditing. The majority of client participants, and even
some auditor participants expressed concern about the external VfM auditors’ ability,
either to deliver a good quality assessment, or to provide them with value added
recommendations to improve their performance.

Fifth, this Thesis has added to the substantial body of literature on perceived power
asymmetry in auditor-client relationships by considering this phenomenon in the context
of a VfM audit, which differs substantially from the traditional financial audit. VfM
auditing involves a major shift in the auditors’ roles and responsibilities and brings with
it significant shifts in the balance of power between auditors and the audited bodies. The
perception of this power shift emerges clearly from this Thesis. This study also confirms
that the influence of social factors as mentioned above, on the process of auditor-client
role-taking, exerts a significant impact on power asymmetry in auditor-client
relationships and definitively shifts the balance of power to the clients’ side.

Lastly, the literature indicates that a VfM audit is a new phenomenon to emerge, both in
the UK Public Sector and worldwide, and there is a need for more research to improve
the understanding of, and theory generation for, this important type of audit (Glynn,
1985; Guthrie and parker, 1999, Power, 2000; Powerman et al, 2000, Chowdhury et al,
2005). Therefore, this current study has contributed to the longstanding lack of
knowledge in regard to the practice of VfM audit by documenting the perceptions of
those actors, who are directly involved in the process of the VfM audit, about its
effective performance in terms of improving accountability and the delivery of VfM
services in Public Sector institutions.
6.7. Limitations and avenues for future research

This study is explanatory in nature and, while subject to a number of limitations, it lays a foundation for future research. The various shortcomings of data collection in this research were discussed and dealt with in details in Chapter 4 and 5. In light of this, and to avoid repetition, this section only highlights the main limitations for this study and the ways in which the researcher was able to overcome some of these limitations and then will indicate some avenues for future research.

This Thesis has several theoretical restrictions, first, the analysis carried out for this study indicates the existence of a professional standards’ and values’ gap in the VfM audit environment. The main reason for such a gap appears to have been that auditors’ objectivity, independence, professional competence and their ability to provide their clients with accurate assessments all are professional characteristics less likely to be applied to the VfM auditing as a result of the influence of these social factors on the VfM audit processes. Thus, the implications of the external VfM auditors’ new roles for VfM auditing as a profession need further exploration. Role theory cannot help in examining such issues since it is believed to account for the behaviour, expectations and perceptions of members in an organisation and how these members interact and communicate with one another. Hence, another possibility would be to look at VfM auditing at a professional rather than individual level.

Scholars of sociology, such as Carr-Saunders and Wilson (1933), Hickson and Thomas (1969), Jackson (1970), Flint (1988) and Perks (1993), have all provided different approaches based on specific characteristics to be used in the study of professions (see their work for details). Although, there is no single approach acceptable to all
researchers (Assiri, 1997), further studies might pursue research based on examining the existence of any set of these characteristics suggested by the above scholars to study the impact of the new VfM audit roles on the profession of VfM auditing.

Second, the findings of this study show that the impact of the VfM audit on the audited bodies varies from one audited public body to another. This indicates that the results of this research may be applicable only to the audited public bodies involved in this research and not necessarily applicable to any Public Sector institution. It would thus seem worthwhile to extend the examinations of expectations and perceptions about the VfM auditing utility to participants from other institutions in the UK Public Sector. For example, this approach could consider those public institutions which have been subject to a VfM audit for long period and are therefore likely to understand the scope of external VfM auditors. One could then compare the results with the findings of this study, in order to ascertain whether there is a negative correlation between an unreasonable client expectations gap in regard to VfM audit roles and the perceptions of these same clients in regard to the VfM audit’s utility.

Third, this study is explanatory in nature and covers many issues. Future research may focus on more specific issues at the personal, interpersonal and external levels, while studying in greater depth the impact of these specific factors on the process of role-taking between the external VfM auditors and the audited bodies. Such studies could, for example, involve an in-depth study of the impact of the auditors’ professional background and whether this background has been dominated by accountancy experience or by working as professionals inside public institutions. This is likely to provide a better understanding of the importance of the auditors’ professional
background, and the implications for auditor competence and the development of the VfM auditing profession (regulators and audit firms). The implications for expectations and perception gaps may help to identify the best way forward in regulating the VfM auditing profession.

Finally, the analysis carried out for this current study reveals that Public Sector organisations are continually changing their ways of managing public resources to improve the delivery of VfM services. Public Sector audit regulatory bodies are also continually modifying the rules and the scope of VfM audits in order for this type of audit to be relevant and adequate in the face of such change. Hence, the issues are far from settled and the results reported here suggest that there is room for more research to duplicate this research and update its findings.
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