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the Informed Groups**

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The UK public sector VfM audit expectations gap: evidence from the informed groups

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Abstract: The paper investigates the current practice of Value for Money (VfM) auditing in the UK public sector organisations. We focus primarily on two main research questions: to what extent an expectation gap exists between the VfM auditors and auditees and what lessons can be drawn from VfM audit practice. To address these critical research questions, we conduct 39 semi-structured interviews with key external auditors and public sector organisations' representatives who have direct experience of VfM process and audit. The study results reveal significant differences between auditors' and managers' perceptions of VfM audit materiality, audit evidence and the true and fair view of auditors' reports and public sector performance audit. Intriguingly, the study finds evidence that auditors are not performing their VfM audit responsibility with the level of professional and technical expertise as expected by the organisations' managers. Overall, our findings provide further empirical evidence on the public VfM audit practice in the UK and draws attention to some of the ambiguities associated with what auditors perceive as their roles and what auditees' expect from them.

Keywords: audit expectation gap; audit evidence; materiality; performance audit; public sector; true and fair view; UK; VfM audit.

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1 Introduction

A copious number of attempts at defining the audit expectations gap, illustrating its potential causes and establishing its composition and constituent parts, have been made by researchers (e.g., Liggio, 1974; Cohen Commission, 1978; Guy and Sullivan, 1988; Humphrey et al., 1992; McEnroe and Martens, 2001; Noghondari and Foong, 2009; Barrett AO, 2012; Kassem and Higson, 2012; Parvez et al., 2019). The view generally espoused by these researchers is that the audit expectation gap is attributed to the role perception disparity occurring, in the view of the public and the financial statement users, between what can reasonably be expected of the auditors and what the auditors believe should be expected of them. In this context, Guy and Sullivan (1988) and McEnroe and Martens (2001) have indicated that the audit expectations gap refers to the difference between what the public and users of the financial statements believe auditors are responsible for; and what auditors themselves believe their responsibilities to be.

The earliest work on the expectations gap goes back to the work of Liggio (1974). In his seminal study, he defined the expectation gap as the differences in expected performance according to the perspectives of independent accountants and the users of financial statements. Later, the Cohen Commission (1978) added that a gap might exist because of the difference between expectations and needs of the public and the reality of that which auditors can and should reasonably expect to accomplish. The definition of audit expectations gap was broadened by Porter (1993) who highlighted that such gap should involve any views made on auditors' services. She argued that widespread criticism of auditors and litigation against them indicates that the definition of the audit

expectations gap should be extended to include the auditor's performance and how this is to be perceived by both auditors and auditees.

Indeed, several studies have been undertaken with specific aim to investigate the existence of an audit expectations gap between auditors and users of financial statements both from a developing and emerging country perspective (e.g., Humphrey et al., 1993; Porter, 1993; McEnroe and Martens, 2001; Best et al., 2001; Porter and Gowthorpe, 2004; Lee et al., 2007; Dixon et al., 2006; Klaus and Martin, 2014; Litjens et al., 2015). However, the overwhelming evidence emanating from these studies is that an audit expectations gap manifestly exists between auditors and users of financial statements.

It is also well accepted that previous audit expectations gap literature has focused mainly on the private sector and has ignored the public sector. This is despite the role of auditing in the public sector being long-standing and entrenched (Hay and Cordery, 2018).^{1,2} The role of public audit is to assure taxpayers that the money they provide through compulsory taxation is accounted for accurately and spent on the purpose intended. Arguably, although the broad aim of the audit profession is similar in both sectors (McCrae and Vada, 1997; Chowdhury et al., 2005), the literature still lacks empirical research which investigates the existence of an audit expectation gap, specifically in relation to the UK public sector (Glynn, 1985; Guthrie and Parker, 1999; Powerman et al., 2000; Chowdhury et al., 2005). Overall, the literature remains ambiguous of what auditors perceive as their roles and what auditees expect from them in the public sector arena.

Prior literature also lends more credence to auditors under the assumption that they are fully qualified to conduct VfM audit and assume a mutual relationship and understanding between them and their auditees (e.g., Koo and Sim 1999; Morin, 2003; Hegazy and Stafford, 2016). In an interesting Australian based study, Funnel and Wade (2012) revealed that auditees tend to resist the outcomes of the performance audit and that their relationship with auditors is highly complex. Rosa et al. (2014) also assert a number of impediments in the performance audit approach adopted in Spain. This finding is further supported in an earlier study by Morin (2001) who argued that the reality of VfM audit is much messier than what theory has suggested. Therefore, the main thrust of this research is to unfold this reality by specifically addressing three key research questions on VfM audit:

- how the role of auditors in the VfM audit of public sector organisations is envisaged by both auditors and the auditees (in this study, the term auditee(s) is used interchangeably to refer to senior officials or public sector organisations they represent on VfM audit)?;
- what lessons can we learn from the current practice of VfM auditing in UK public sector organisations.

To answer the above questions, we examine the accountability framework and three VfM audit concepts, i.e. the materiality of the auditors' findings, audit evidence (in this study, the term audit evidence is used interchangeably to refer to the documents representing both revenues and expenditures of public sector organisations that should be examined and assessed by VfM auditors and the true and fair view of the auditors' reports, and performance audit). Our study contributes to prior literature on VfM audit in the following ways. First, unlike most studies that approach VfM audit as a structured exercise with specific requirements and outcomes (i.e. Ruyter and Wetzels, 1999; Morin,

2001; Free et al., 2013), we consider auditors assessment of economy, efficiency and effectiveness in public sector organisations to be dynamic and therefore not necessarily meeting the expectations of the auditees. Second, we further build on the work of Alwardat et al. (2015) to capture other areas that have not been previously explored in their study including the three audit concepts mentioned above. The concepts are explored following specific guidelines (see the methodology and design section below). Third, we use rich interview data to provide explanation and interpretation of auditors and auditees' in the discharge of the auditors' role and responsibilities. Interview quotes are provided as necessary to support each claim made. The perceptions of both parties are also used to verify the role of auditors as stated in the official documents and what is needed to improve the current approach of VfM auditing in the UK. This provides further empirical evidence into what we already know about the VfM audit practice. Conceptually, we provide further depth into the factors driving the VfM audit and illuminate on their relevance and impact on the exercise.

The remainder of the paper is organised as follows. In Section 2, the research methodology and design are discussed with particular emphasis on the approach taken in the selection of interviewees and guidelines followed in conducting the interviews. Section 3 discusses the main issues emerging from the interview data. The results are mapped against previous research findings presented by other researchers on the materiality, true and fair view of VfM audit reports and performance audit. The final section concludes the paper and makes recommendations to improve the scope of VfM audit in public organisations.

2 Research methodology and design

This study adopts a qualitative methodological approach to investigate the audit expectations gap in the UK public sector. Data was obtained by conducting semi-structured interviews with key external auditors and public sector organisations representatives who are involved directly in the process of VfM audit. The issues covered in all of our interviews were determined based on the study scope, and interview questions were composed accordingly. Although the questions differed slightly in some interviews, due to a specific organisational context, the main theme for each question was common to all the interviews. This ensured that all the VfM auditors and auditees participating in our study responded to the same questions. The interview questions were also carefully formulated to ensure that our views would not intrude, and neither would the interviewee be led to respond in a pre-determined manner (Saunders, 2015).

To address the study's two main research questions

- 1 Why the current VfM audit is perceived differently by the auditors and auditees?
- 2 What lessons to draw from the current practice of VfM audit?

We identified six issues, which are used as guidelines to set-up the interview questions:

- 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 materiality of the VfM auditors' findings
- the truth and fairness of the VfM auditors' reports
- auditee acceptance of the auditor's recommendations, (Appendix 1 presents a list of the interview questions).

We justify the use of the above guidelines on the following grounds. First, VfM auditors enact a number of roles as part of the VfM audit process (Al Wardat et al., 2015). Second, the VfM audit is undertaken precisely to add value and be useful to the public bodies (Glynn, 1983). Third, VfM audit is deemed as a tool to enhance public bodies' performance (Glynn and Murphy, 1996). Fourth, capturing the materiality of the findings presented in VfM reports is essential at assessing the VfM audit (Al Wardat et al., 2015). Fifth, in the VfM audit exercise it is expected that the recommendations made by the auditors to be true and fair (Flesher and Zarzeski, 2002). Finally, for the VfM audit to be useful; the recommendations made by the auditors need to be accepted and used by the relevant auditees (Audit Commission, 2005).

Our interview questions were thus developed based on the aforementioned issues, and follow up questions were asked during the interviews to obtain further clarification on these issues. Questions about the participants' expectations specifically focused on expectations related to external VfM auditors' roles and responsibilities. For example, participants were asked whether it was the VfM auditor's responsibility to suggest solutions to problems faced by the audited body, or to simply highlight the areas for improvement and leave the audited body to address these problems, hence safeguarding auditor independence.

With regards to the participants' perceptions of the usefulness of VfM audit, the participants were asked whether they believed VfM auditors to be controllers, questioning the audited bodies' accounting practices, or catalysts for improvement and change. The interviews also focused on how personal, interpersonal, and external factors in the VfM audit environment work together to hinder or enhance the effectiveness of VfM audit performance and lead to tangible change in public resources management.

Our interviews also focused on how participants perceived the materiality of the value-added element in the recommendations made by VfM auditors to audited bodies, taking into consideration the VfM audit costs incurred by the audited bodies in order to obtain this added value. Level of assurance was another relevant aspect covered by the interview. The participants were asked about the ways in which they perceived the level of assurance that VfM auditors provided and specifically about whether they perceived public resources to be wisely managed by audited bodies.

Interviews were held with 39 participants, including 17 auditors and 22 auditees. The difference in the number of auditors and number of auditees (i.e., clients interviewed) was justified based on the fact that the number of professionals and operational managers in public sector organisations exceeds the number of VfM auditors. Further, access issues made it difficult to recruit equal numbers of external auditors and clients. However, the majority of the external auditors included all had lengthy experience working across different public audited bodies.

The auditors included those working for the National Audit Office (NAO) and Audit Commission (AC) (the latter, prior to its abolishment in 2015) as well as auditors from private accounting firms who were working as subcontractors for the AC and were carrying out VfM audits in public sector bodies and all of whom held senior managerial

posts. All of our auditee interviewees also possessed valuable professional experience in VfM audits. These auditees were drawn from four public sector organisations: the National Health Service (NHS) (six interviewees); Local Government Authorities (five interviewees); Police Authorities (five interviewees); and Housing Associations (six interviewees). The approach followed in the selection of these organisations is based on the services they offer and their importance to the public. Therefore, all the organisations offering services that are deemed significant to the public are captured in the study. This has provided us with an opportunity to compare the views of auditees from each type of organisation as there is always a chance that VfM auditors' assessments may vary from one organisation to another based on the service they offer. By having auditees from different organisations has also enabled us to identify any uniqueness in the views over the way VfM audit is conducted in these organisations.

Since the interview data was collected from different auditing and public sector bodies, we initially grouped the data according to the main sector to which the organisation belongs. This allowed us to compare the views presented by the auditees from each sector on VfM audit. For example, a member group from the NHS could be compared with a member group from Local Government, Police Authorities or Housing Associations. During the process of categorisation, units of data were examined to ascertain whether any of the units corresponded with more than one category. Any such units were then placed in as many categories as considered relevant and then the redundant data was eliminated. Units with relevant meaning were clustered in order to identify any common themes and trends emerging from the units and the number of participants supporting the themes or trends was quantified. Themes and trends are identified on the basis of the number of participants supporting the issues raised during the interviews.

Finally, to ensure effective data categorisation, interview data text was grouped according to the three main Meta categories that are directly linked back to the study's overall research objectives. These were: a) participants' perceptions of the materiality of VfM auditors' findings; b) participants' perceptions of audit evidence and the truth and fairness of VfM audit reports; c) participants' perceptions of VfM audit performance. The three VfM audit concepts are created based on the major themes emerging from the interview data and deemed to be the most appropriate at judging the quality of the VfM audit practice as they capture outcomes of the VfM audit and their relevance to public organisations. The formed categories are used as a basis for the results and discussion presented in the next section.

3 Results and discussion

In line with the main research objectives and our discussion above, we undertook qualitative analysis to compare the perceptions of external auditors and auditees regarding three important audit concepts:

- audit materiality
- audit evidence and true and fair view of auditors' reports

- performance audit. Table 1 presents participants perceptions about these concepts.

Table 1 Number of interviewees supporting VfM audit statements

	<i>Auditors (17)</i>	<i>LGA (5)</i>	<i>HA (6)</i>	<i>PA (5)</i>	<i>NHS (6)</i>
<i>Materiality of VfM reports</i>					
VfM reports provide sufficient level of assurance.	10	4	1	3	3
VfM reports add value to audited bodies.	14	3	2	1	2
<i>True and fair view</i>					
VfM reports represent the underlying reality of the audited body.	12	3	1	2	1
<i>VfM audit evidence</i>					
VfM auditors base their assessment on sufficient evidence.	16	5	4	4	5
<i>Performance audit</i>					
VfM audit has been perceived as controlling process.	16	5	4	4	5
VfM audit has been perceived as improvement process.	12	5	4	3	4

Note: Interview participants include 17 auditors, and 22 auditees – 6 from the National Health Service (NHS), 5 from the Local Government Authorities (LGA), 5 from Police Authority (PA), and 6 from Housing Associations (HA).

In the analysis of the interview data, to ensure neutrality and objectivity, we considered the views of the auditors and those of the auditees based on the critical arguments made and how each assertion is supported while considering the actual requirements of VfM audit and any relevant literature on the theme(s) discussed. As the percentage of participants from the auditors and auditees groups is not significantly different, 43.5% and 56.5% respectively, we believe that the analyses presented are overall balanced and provide an accurate reflection of VfM audit practice in UK public organisations. The analyses of three audit concepts are provided below.

3.1 *Materiality of VfM reports*

It is well accepted that when undertaking VfM studies, auditors naturally examine evidence provided by auditees, then present their findings and identify areas where performance needs to be improved before finally providing auditees with recommendations. Auditee implementation of recommendations depends on the materiality of the auditors' findings and on the value added by the proposals to the audited bodies. In addition, VfM audits incur costs which are met by the audited bodies. Moreover, the audited body's staff must devote considerable time in preparing enough evidence for audit. Hence, our study of the VfM audit's materiality is predicated on all of these assumptions.

We, therefore, asked our participants about their perceptions of the materiality of external VfM auditor recommendations and, in particular, whether these recommendations have added value (i.e., improve performance of these bodies) to the audited bodies. Our analyses reveal that there are opposing views between auditors and auditees in this regard. Among the auditors interviewed, there was almost a consensus about the benefit of their assessment; with 14 auditors interviewed stating 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 works independently, their perspective of the nature of activities within their own public service bodies is likely to be limited. The VfM assessment also enables a comparison with other bodies resulting in the transfer of good practice from one body to another. These auditors were also emphatic about the benefits of VfM audit. They argued that 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 the organisation is monitoring key performance indicators against particular benchmarks, while the latter assesses issues related to financial management and financial planning. Thus, the majority of auditors interviewed were very positive about the operational and financial benefit gained from their recommendations by the audited bodies, particularly when audited bodies identified weaknesses in some of their departments and recognised the need for external and independent view.

Interestingly, this view was disputed by three of our interviewed auditors. These auditors perceived their assessments, in terms of VfM, were more beneficial to regulatory bodies such as the AC for the purposes of its national report and own performance record than of practical use to the audited bodies. 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.

In addition, these auditors, who were sceptical of the value added by VfM audit reports criticised the volume of the VfM audit, believing that the timescale usually given to the audited bodies to apply VfM audit recommendations was insufficient to ensure the most desirable outcomes, a fact which consequently affects the value added aspect of their recommendations. They also highlighted that audited bodies were generally receptive to continuously learn and improve, but because of these reservations, the audited bodies did not view auditor recommendations as something exciting which they might benefit from to improve performance. Instead they dealt with the whole process in a rather perfunctory manner.

Unlike the majority of the auditors who perceived the findings and recommendations of VfM audit to be material, three respondents from Local Government bodies, four respondents from both the Housing Associations and NHS bodies and a single participant from the Police Authority shared this view. The empirical data presented in this study, therefore, leads us to suggest that the reason for this disagreement is primarily due to the external VfM auditors' lack of practical as well as operational knowledge of the audited bodies' day-to-day activities.

Pertinently, the absence of close auditee observation by auditors is evident in the auditees' own views about VfM's inaccurate emphasis. The majority of our auditee participants cite materiality issues in the auditor assessments of auditee compliance with regulations. Examples include not applying accurate and truthful communication tools and not appreciating the actual differences in bodies' service delivery. We also find auditees who questioned the competence of auditors to be discussing procurement issues,

which are deemed to be crucial, both to the organisation itself, and to the lives of public service users.

Those auditees who were not convinced of the materiality of the VfM audit added that VfM auditors tended to focus entirely on efficiency issues and do not have the ability to shift from a financial focus and 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 auditees' 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.

In addition, a director of nursing in a hospital emphasised the willingness of VfM auditors' to place more emphasis on issues which could be measured in monetary terms as well as their refusal to engage with subjective issues. He asserted:

“They (auditors) 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”.

When attention is turned to cost-effectiveness, auditees argued that the process was both expensive and time consuming since it involved dedicating extensive staff time to accumulating evidence for auditor assessment. They further asserted that materiality, in terms of the value added to the audited bodies; do not always outweigh the financial and time costs.

Overall, there appears to be significant differences in auditor and auditee perceptions of VfM audit materiality, both in terms of its findings and recommendations. However, our analysis reveals that there are two types of materiality which could be claimed by external VfM auditors; the first is explicit, which could be judged through the tangible value added through assessment to 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 intangible and consists of the level of assurance provided by auditors' assessment, since they belong to 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 auditees were not convinced that the value added by the VfM audit is cost-effective, Table 1 shows that a significant number of our respondents were convinced of the level of assurance provided by VfM auditors. They argued that this assurance could be provided to both the public and to audited bodies themselves.

In terms of public perceptions, our auditee participants argued that the public is aware that substantial public resources were offered to public sector institutions annually to enable the improvement of performance and deliver VfM services. They maintained that the public always question the management of these institutions about these resources. Respondents expressing this view argued that this is precisely where the materiality of external VfM auditors can be located. This is justified by the fact that VfM audit bodies are independent organisations and the public is likely to put greater faith in such an independent assessment rather than on the audited bodies themselves.

Focussing on the level of assurance provided to audited bodies, a significant number of auditees believed that VfM audit reports did in fact provide some level of assurance to

senior management and to trust boards, demonstrating that an independent party has examined the evidence and confirmed that the executive level processes are sound and robust in the areas which have been examined. In addition, auditees in favour of the materiality of the VfM audit's findings and recommendations argued that even in situations where they are familiar with auditors' recommendations and have already planned to consider them without them being highlighted by auditors, they still believed that these recommendations reassured auditees that their activities were progressing as expected. The following comment from a director of quality performance department in a Police Authority encapsulates well the importance of VfM audit 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 public bodies' that they are focusing on the right areas. This is affirmed by the following auditee views:

“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”.

We conclude that, 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 public audited bodies' management and to encourage them to review their conduct and improve performance. Additionally, VfM audit has been perceived as a scrutiny tool because it could be used to convince the provider of public resources as well as the general public that public resources have been managed wisely.

3.2 Audit evidence and true and fair view of VfM audit reports

The VfM auditors have a role of providing objective reports, which represent the reality of the audited bodies' performance. In performing this role, auditors are required to support their reports with sufficient and reliable audit evidence that should be provided by the audited bodies (Kamau Guandaru and Kariuki Nduati, 2012). Table 1 shows that almost all of our auditors (16) interviewed perceived the audited bodies to be cooperative with the evidence they provide allowing them to undertake the VfM audit assessment and produce reports representing the truth and fairness of the audited bodies' affairs. The majority of auditee respondents also shared a similar view. However, the responses indicate significant difference in perceptions between auditors themselves and between the auditors and the auditees on issues relating to the true and fairness of VfM audit reports.

An overwhelming majority of the auditor respondents (12) perceived that VfM audit reports represent a true and fair view of the audited bodies' performance. Five of the auditor respondents who disagreed on these issues invoke the following three main reasons. First, the timescale usually given to audited bodies to properly 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. Second, the budgets allocated to the VfM audit by the audited bodies do not usually allow for a full assessment of their individual departments and ultimately provide a clear and realistic picture of their activities. Finally, there is lack of specialist auditors possessing a similar

degree of sector wide knowledge, particularly in technical areas, as those specialists offered in audited bodies.

This argument put forward by auditors who disagreed that VfM audit reports represent the true and fair view of audited bodies' performance was supported by the majority of our respondents from the auditee group, particularly those from Housing Associations, NHS and the Police Authority. The data indicates that, whereas three of the respondents from the Local Government authorities were convinced that VfM audit reports reflect a true and fair view of their organisations' performance, only two of the respondents from the Police Authority and two respondents from both the Housing Associations and the NHS bodies shared this opinion. Respondents from the auditees group who expressed reservations on the issue of true and fair argued that most auditors are not specialists and do not have sufficient knowledge of the audited bodies. It was, therefore, easy for auditees to mislead them and make them feel that the auditees have certain things in place which in reality may not be the case. In addition, auditees also argued that auditors do not always have enough time, either to go through the entire evidence provided by audited bodies or to assess all areas of the audited bodies' performance. Instead, these auditees maintain, that auditors usually accelerate the process to meet specific targets (e.g., when auditors are required to undertake a specific number of VfM studies during a fixed period) set by regulatory bodies, whereas the emphasis should be on the quality of the audit outcomes. This is supported by the following quote by an auditee from the Housing Association:

“How can they (i.e., auditors) 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. 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”.

Curiously, our auditee group interviewees emphasised that due to these time constraints, auditors practically 'skimmed across the top' of the audited bodies, by only interviewing members who are 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 reality of the front-line nature of public services are usually ignored. As a result, the auditors' findings rarely represented the reality of individual departments (Coran et al., 2004). Therefore, in light of the data analysed concerning time limitations for both the auditors and auditees groups indicates the existence of an audit overload in the UK public sector. Consistent to Coran et al. (2004), this audit overload, according to both the auditor and auditee perspectives, exerts a considerably negative impact on the true and fair view and on the materiality elements of the VfM audit reports.

As a result of these findings, it is 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. It can also be deduced that focusing on the quality of outcomes, rather than on the quantity of VfM audit, is likely to improve effectiveness of the VfM audit, in terms of its capacity to hold auditees accountable for the use of public resources, to change the image of the auditees about this type of audit, and to provide the public and regulatory bodies with 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 et al. (2000) on the growth of

different audit activities in the three major public service organisations in the UK (Healthcare, the Police Authority and Schools). According to Bowerman et al. (2000), there was an indication of the growth of different audit activities and a proliferation of audit bodies, but with 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 studied.

In addition to respondents' reservations on the time constraints, auditees 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 reference for other organisations. These auditees argued that this sort of comparison should be undertaken with extreme caution, comparing exclusively to those organisations which share significant commonalities. They argued that adopting a 'one size fits all' VfM audit approach does not address the needs of public organisations since each organisation has different characteristics and circumstances, both financial and non-financial. They also note that organisations with high resources are more likely to have a much higher ratio of trained professional staff that are able to deliver better services. They added that auditors should be authorised to adapt the VfM audit roles to the context and circumstances of each organisation, and only then participate in making recommendations and implementing solutions.

Likewise, when comparing peer organisations, auditees who have reservations on the issue of a true and fair view argue that performance indicators, usually employed by auditors as benchmarks to assess audited bodies' performance and influence auditor's outlook, have been imposed nationally (applied in all public bodies without considering the differences of the nature of services that these bodies deliver). They noted 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, these auditees perceive auditors not having enough flexibility to adapt these benchmarks to their organisational circumstances. Therefore, 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. A summary of the reasons why auditees were not convinced of auditors' reports is given below:

- the external VfM auditors' lack of practical and operational knowledge of the audited bodies' day-to-day activities
- VfM auditors place more emphasis on issues that are measured in monetary terms while they refuse to engage with organisation(s) subjective issues
- auditors do not always have enough time, either to go through the entire evidence provided by audited bodies or to assess all areas of the audited bodies' performance
- insufficient time is given to the audited bodies to properly implement auditors' recommendations
- the VfM audit budgets do not usually allow for a full assessment of the audited bodies' individual departments and provide a clear and realistic picture of their activities

- there is tendency towards focusing on the views of the senior and strategic level staff while ignoring the views of those working at the operational level and who know the reality of the front-line nature of public services
- adoption of a ‘one size fits all’ VfM audit approach and not appreciating the disparity in public organisations’ characteristics and circumstances, both financially and operationally.

3.3 VfM audit and public sector organisations performance

The broad aim of the audit process is to make recommendations on how to improve the audited body’s performance. 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. For instance, 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.”

To understand the issues surrounding the role of VfM auditors’, respondents were asked to express their views about the whole process of VfM audit, including whether they perceived such an audit system as a controlling or improving process. Interview data reveals that almost all the auditor respondents (15) 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 five respondents from Local Government, five from the NHS, four from the Police Authority and four from Housing Associations. The majority of the respondents from both groups were convinced of the ability of external VfM auditors to identify where the audited bodies are complying with procedures and fulfilling the stringent requirements of the regulatory bodies.

Interestingly, the present study provides information contrary to the findings of Morin’s (2003) 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. Our results reveal that the majority of respondents from audited bodies are still convinced of the roles of the VfM audit in improving performance in public sector institutions, while highlighting the difference between auditees who share this view and those who believe that the controlling role of VfM audit is insignificant.

Table 1 reveals that the majority of auditees, 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.³ The interview data also reveals that all respondents from the Local Government bodies, four respondents from each of the NHS bodies and Housing Associations and three respondents from the Police Authority perceive that VfM audit could be appropriate at controlling and improving the UK public sector performance. The interview data show

that there is no considerable difference between the auditees who uphold the VfM's controlling role and those who believe in its improving role.

Conversely, the majority of the auditees interviewed (supported by some auditors) agree with Morin's (2003) view that the role of improvement has not yet been internalised by auditors, and that auditors remain uncomfortable with these roles, which contrast with their traditional financially-based approach to auditing.⁴ 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. Respondents who supported VfM audit outcomes argued that, although the VfM audit did not, from an operational standpoint, make a visible contribution to public sector bodies' performance improvement it is still, nevertheless, able to make an intangible contribution to their performance. This argument is in contrast with that espoused by Power (1994), who was sceptical about the possible social benefit of investment in audit services.

In practical terms, our 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 overall contribution of VfM audit, 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 strategic change. The majority of auditee interviewees also added that VfM audit has brought a considerable challenge and become embedded in their organisational objectives to the extent that the organisation's members, particularly at management level, started to think more widely about their strategies, objectives and the available options for the delivery of VfM audit services (Alwardat et al., 2015). This can be gleaned from the comment of an auditee who asserted:

“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 an 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”.

Consistent with Morin's (2008) view that the VfM audit has served as a surrogate whistle blower for auditees, the interview data shows that VfM audit acts as a tool to trigger the review of audited bodies' services and to pay attention to neglected problems. The evidence provided by our interviewee's reveal overwhelming support for the view that VfM audit's has capacity to draw the attention of auditees to the areas that need to be improved. Interviewee comments indicate three main reasons for VfM's potential in this regard:

- VfM audit provides audited bodies with some assurance in terms of their efficient and effective conduct (i.e., when auditors indicate areas for improvement, auditee action to remedy is triggered)
- VfM audit gives indication to public sector senior management of the whole organisation's performance in an explicit manner
- since auditors have insight into other organisations' management and delivery of public services, they are likely to bring both an external and an independent perspective along with considerable practical experience.

Thus, allowing auditees to have better assessment of their own performance vis-à-vis other organisations.

Moreover, auditees who were in favour of VfM audit highlighted that in some organisations, particularly in local government authorities where annual elections are held, 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 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. The comment below by an auditee from a Local Government Authority reflects such view:

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

On the whole, the analysis reveals the importance of the VfM audit's as a scrutiny tool in improving performance in the UK public sector organisations. The views presented by auditors and auditees have raised awareness of better methods to enhance cost-effectiveness and to improve the quality of services offered. The VfM audit's status as an appropriate tool initiates from the fact that an independent body's assessment of its 3Es, is the only way to achieve best practice in the delivery of public services and greater transferability of examples of best practice across public sector bodies. However, the analysis also reveals that public sector organisations are continually changing their ways of managing public resources to improve the delivery of their services. As a result, in order for the VfM audit role to remain relevant and adequate, there needs to be a continuous process of review and modification.

However, most auditees did argue that for auditors to demonstrate real commitment to improve the image of VfM audit in the eyes of auditees, the auditors themselves need to improve in fulfilling the role(s) they are applying. Auditees highlighted that auditors need to familiarise themselves more with the distinctive attributes of the audited bodies' business and recognise the difference between assessing the performance in private sector organisations, where the main target is to obtain the most possible profit, and in public organisations where the main objectives are to deliver VfM services and improve public satisfaction. Auditees also maintained that in order for this type of audit to become more effective and relevant, and to maximise its contribution in improving public sector organisational performance, auditors should be allowed greater freedom and flexibility to express their professional views, and to adapt the role of VfM audit to the audited bodies' circumstances. This level of flexibility, auditees argued, is more likely to help them accommodate the audited bodies' innovations.

This argument, regarding the importance of allowing sufficient level of flexibility to VfM auditors, is once again consistent with Morin's (2003) Canadian study which examined whether or not VfM auditors could be perceived as controllers or catalysts for change and improvement. Morin found that in order for 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 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.

Table 2 provides a summary of the key findings emerging from our study and how they differ from the extant literature.

Table 2 Study key findings and their mapping with the relevant literature

<i>Study key findings</i>	<i>Similarity with extant literature</i>
VfM audit remains valuable to public sector organisations but its scope of benefit is limited.	Other research findings on the outcomes of performance (VfM) audit are presented by Funnel and Wade (2012) and Lapsley and Pong (2000). These studies, however, only focus on auditors-auditees relationship and not on the actual practice of VfM audit per se.
VfM audit continues to be mainly relevant at confirming and controlling the extent to which public bodies use public resources.	
Materiality issues and concerns are associated with the current VfM audit exercise and its implementation.	The materiality viewpoint has been raised by Alwardat et al. (2015) but not explored.
Auditors' reports in their current form and substance do not fully meet the expectations of the audited public bodies.	Sharma (2007) presents different findings and highlights that auditors use relevant facts to support the findings they include in their VfM reports.
There is discrepancy over the true and fair view of auditors' reports between the auditors and auditees groups and the extent to which they actually reflect audited bodies' performance.	Supports the notion presented by Bowerman, Humphrey and Owen (2003) that public audit tends to have less emphasis on outcomes.
The VfM audit exercise is subject to operational constraints, auditees influence and lack of flexibility.	The finding adds into the argument put forward earlier by Morin (2001) about lack of communication between auditors and auditees and provides further insights into the inhibitors of the VfM audit.
Adoption of 'one size fits all' VfM audit is unsuitable and ineffective at addressing the various needs of public organisations.	Power (2000) raises the issue of VfM audit interpretations but does not refer to the shortcomings of 'one size fits all' VfM audit approach. Parker et al. (2019) also examines performance audit across jurisdictions.
VfM audit is negatively affected by auditor's lack of knowledge of public organisations' day-to-day business activities and operations.	Similar assertion is put forward by Morin (2003) who notes that auditors continue to be uncomfortable with the non-financial based roles.
Investing in the VfM audit process is deemed to support public bodies strategic change and for auditors to make intangible contribution to these bodies.	The finding complements Power (1994) and Adi and Dutil (2018) view of VfM audit as an effective tool to enhance performance and accountability in public bodies although in its original form rather than making adjustments to the VfM audit practice and the various roles played by the VfM auditors.

4 Conclusions

This study uses qualitative research methods to explore the existence of an audit perception performance gap between auditors and auditees in key UK public sector organisations. VfM auditors' roles, as set out in official documents were used as benchmarks to identify potential gaps. In addition, three audit concepts were used to investigate the audit perception of the performance gap between auditors and auditees. These concepts were: the materiality of the auditors' findings, the true and fair view of their reports and organisations' performance audit. The analysis revealed the existence of a 'duties performance' gap between auditors and auditees. This gap exists when auditors do not fully fulfil any of their duties as expected and perceived by the auditees. In general, auditees were not impressed by the external VfM auditors' current duties. One of the personal attributes highlighted in this study, and affecting auditees' perceptions about the VfM audit's utility, is the auditors' lack of full awareness and understanding of public sector organisations actual business attributes.

Interestingly, the study also revealed that the main concern surrounding the VfM audit performance is the influence of auditors financial accountancy background on their assessment of VfM audit, since the majority have been initially trained as financial accountants and then started to conduct VfM audits. The analysis reveals 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 appreciate for the intangible values which dominate public sector services. Auditors need to recognise that the assessment of public bodies' performance is mostly based on an educated judgement, which is difficult to quantify.

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:

- setting up specific and dedicated educational and training programs, and ensuring that all VfM audit practitioners attend these programs and have obtained the relevant qualifications
- reviewing these courses and training programs from time to time to ensure their relevance to the constant and rapidly changing ways in which public sector organisations deliver their services
- 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.

Despite the important findings highlighted in this study on the presence of an expectations gap between auditors' and auditees' in the five distinct UK public sector organisations. It should be noted that as with other research studies, this study too has its limitations. Foremost, this research presents holistic analysis intended to delineate a broad understanding of the key issues surrounding auditing and materiality of VfM reports, audit evidence and true and fair view and public sector performance. Therefore,

we believe it is imperative that future research considers employing an in-depth case study designed to allow a more fuller understanding of VfM and to establish the dynamic at play between auditors and auditees' of a single and large public sector organisation (e.g., such as the NHS or the Police Authority). Obtaining views from a much larger base of officials from both an auditor and client perspective would undoubtedly generate persuasive and cogent conclusions to be drawn as interviews would be conducted on the two parties directly based on the same issues involved and are serving the same assurance service contract. Interesting comparisons can also take place aimed at providing useful insights between the different geographical and autonomous regions of the UK in which the NHS and the Police authority operate.

In addition, given that the organisations in our sample are all large organisations', any future study should consider incorporating large, medium and small sized public sector organisations to ascertain any notable size differences in the perceived expectations gap between auditors and clients. Another useful contribution is for future researchers to incorporate the different forms of public sector organisations and the extent of 'competition' faced such as those that are 'fully' competitive, 'partially' competitive and 'non-competitive' public sector bodies. Finally, given that the UK's Audit Commission became defunct in March 2015, any post abolition research would shed valuable light on whether aborting the audit commission has benefitted the UK government in achieving VfM especially in organisations such as local governments and the NHS and to investigate the extent to which the audit expectations gap has been minimised. Indeed, such research opportunities would provide upcoming researchers to make a worthwhile addition to the public sector audit literature.

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Notes

¹While private and public sector audits are alike, the distinction is that public sector auditing is primarily concerned with 'value for money auditing' and financial statement auditing. As such, public sector auditors are responsible for ensuring that public corporations and government ministries, departments and agencies spend their monies in a manner that is efficient, economical and fit for purpose; and also ensuring that the published financial statements represent the true and fair view of these institutions.

²Public sector audit institutions (such as the UK's National Audit Office) are financed by the taxpayer to safeguard accountability, transparency and integrity of government and public sector entities; and also act as the interface between the government and the general public. Therefore, it is important for the public to have high expectations of public sector auditors and the services being rendered by the audit profession. The 'expectation gap' exists when the public expectations of the audit profession varies from what the auditors actually do (Monroe and Woodliff, 1993).

³In recognition of the growth in VfM audit in Europe and North America and failures identified in the exercise, Morin (2001) proposes a number of measures to improve the approach taken to assess effectiveness and to better link the VfM audit to the public organisations' performance. Using Goffman's theoretical lenses Parker et al. (2019) provide recent evidence of performance audit in Australia and highlight the continuous shift into an outcome based form of auditing while failing to give enough attention to the management of these outcomes.

⁴The variation in expectations usually exists between the recipients of the services and those who provide them leading to more complaints by the former (see for instance: Ngai et al., 2007). Among the factors influencing this variation is trust and strength of relationship between the customers and service providers (Nel et al., 2000).

Appendix 1: Interview Questions

- 1 What are your expectations regarding the VfM auditor's roles?
- 2 How do you perceive the usefulness of VfM audit?
- 3 Do you perceive VfM audit to be a process of controlling or a means of achieving performance improvement, and why?
- 4 How do social factors impact the effectiveness of VfM audit performance at the personal, interpersonal, and external levels?
- 5 How do you perceive the materiality of VfM auditors' findings?
- 6 To what extent do you perceive VfM auditors' reports to be truthful and fair?
- 7 To what extent do you think clients comply with auditor recommendations?