

Value for Money

(VFM) Audit Function:

The Conceptual Framework and Past Research Review

1. Introduction

The objective of this research article is to summarise the theoretical or conceptual framework of the Value for Money (VFM) and past research findings on the actual VFM audit implementations in the developed commonwealth countries. I hope that this research article would be useful for the students, academic researchers and auditors who are interested in the VFM audit function. I will attempt to answer the following questions, in order to enlighten the readers about the VFM audit function.

- What is the conceptual framework of the VFM audit function?
- How the VFM audit function has emerged and developed with the New Public Management (NPM) Concept?
- What are the recent developments in the VFM audit practice in the developed Westminster countries such as Australia, New Zealand, Canada and the United Kingdom?
- What were the recent academic research findings about the VFM audit function in the developed Westminster countries?

I have purposefully omitted the academic theoretical jargon and prepared this research article suitable for the mixed academic and professional accounting audience. I have taken the examples and research studies focused on the VFM audit function in Australia and Canada. This research paper has been written based on a large research project on the VFM audit function in one of the State Audit Offices (SAO) in Australia.*

2. The Conceptual framework of the VFM audit

The VFM audit function is identified by various jurisdictions and organisations in different terms. These terms include performance audit, efficiency audit and operational audit etc. The VFM audit is an audit function in which the auditor examines the economy, efficiency and effectiveness of usage of re-

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sources by an organisation or part of an organisation or specific project as the scope of the audit. The VFM audit function is carried out by the Auditor-General's Departments in mostly developed Westminster parliamentary countries such as Australia, New Zealand, Canada and the United Kingdom. The Auditor-General's departments in Australia and Canada consider the VFM audit as part of the comprehensive audit approach. Under the comprehensive auditing, the government entities are subject to the annual financial audit by the Auditor-General of the respective jurisdiction. Then the Auditor-General selects a few organisations or government projects and carry out the VFM audits on those entities. Accordingly, the financial audit and the VFM audit of those government entities are treated as the comprehensive audit.

The research studies on VFM auditing in Australia and New Zealand have used the terminology such as performance auditing and efficiency auditing to identify the VFM audit consistently (Hamburger, 1989, Guthrie and Parker, 1999, Jacobs, 1998). Accordingly, this research study will use the terminology of VFM auditing in order to identify the audit functions carried out by the State Audit Offices (Auditor-General Departments). The Victorian Auditor-General's Office (VAGO) used the word 'special audit report' in their first VFM audit report in 1982. Subsequently, VAGO has used the term performance audit in their audit reports. The Queensland Audit Office (QAO) uses the terminology performance audit in their VFM audit reports.

This research paper will not attempt to define the VFM audit concept and function. Similar to the differences between the VFM audit practice and the conceptual framework, the past research indicate that defining the VFM audit is a difficult task. I have analysed and sum-

marised some of the past research studies focused on the conceptual framework of the VFM audit. This summary of the literature review is given below.

Parker (1986) in his comprehensive study on VFM auditing indicated that the performance auditing, management auditing and operational auditing are the similar auditing terminologies used for VFM audit concept and function. Parker (1986, p.61) summarised this similarities in audit concepts as follows:

While terms such as VFM, operations and operational audit, performance audit and management audit have been variously employed in theory and practice, the evidence examined in

There are three basic qualitative characteristics encapsulated such as 'Economy,' 'Efficiency' and 'Effectiveness' in the usage of public resources.

this study quite clearly points to their sharing a common basic definition founded upon the concept of economy, efficiency and effectiveness. While the literature reveals some ambiguity in the use of these terms, it is clear that as constituent elements of VFM they have particular meaning. Economy has been defined as the acquisition of human and material resources of appropriate quality and quantity at the lowest reasonable cost. Efficiency has been defined as the use of given set of resources which maximises associated outputs at minimum total cost, or the use of minimum input resources for a predetermined level of output. Effectiveness has been defined as the degree to which predetermined entity objectives for a particular activity or programme are achieved. Conceptually, a VFM audit attempts to evaluate organisational performance based upon these three criteria.

Parker (1986, p.5) has mentioned the following four criteria in his exercise in defining the VFM auditing concept and function:

1. What is the generally accepted definition of VFM?
2. Is it conceptually different from other concepts which reflect elements of the broad-scope audit mandate such as performance audit, operations/operational audit, and management audit?
3. How are the elements of the VFM definition generally conceptualised?
4. Is the concept of VFM audit consistent with the existing framework of the audit function?

After analysing the above questions, Parker (1986) summarised the literature on VFM audit definitions as follows:

VFM has been defined as an examination designed to determine whether the organisation in question is performing economically, efficiently and effectively in its use of resources, operations, procedures and pursuit of objectives.

As per the above given definitions there are three basic qualitative characteristics encapsulated such as 'Economy,' 'Efficiency' and 'Effectiveness' in the usage of public resources by public sector entities.

There are two auditing standards applicable for the VFM audit function in Australia. These two standards are AUS 806-Performance Auditing and AUS 808-Planning Performance Audits. The AUS 806-Performance Auditing standard defines core elements of the scope of the VFM audit. These elements are the economy, efficiency and effectiveness.

Performance auditing is not a prototypical form of auditing that we would expect to fit neatly into the category 'audit'.

The AUS 806.03 defines the 'Economy' as the acquisition of financial, human, physical and information resources of appropriate quality and quantity at the lowest reasonable cost. This definition relates to the acquisition of resources (Gay & Simnett, 2005). AUS 806.04 defines the efficiency as the use of a given set of resource inputs to maximise outputs, or the use of minimum input resources for a predetermined level of output. This definition related to the resource usage concept (Gay & Simnett, 2005). AUS 806.04 defines the effectiveness as the achievement of the objectives or other intended effects of activities. Therefore the effectiveness related to the results or outcomes of resource usage and organisational operations (Gay & Simnett, 2005).

Power (1997) refrained from defining the auditing and VFM audit function. In his own words, he highlighted the difficulty of defining a subject of auditing. His comments are given below (Power, 1997, p.4):

"It seems logical to a study like this with a definition of auditing. In this way, the field of inquiry can be delimited and made manageable from the start. But this is not easy or even desirable for two reasons. First, despite the general references to account giving and checking above, there is no precise agreement about what auditing really is, as compared with other types of evaluative practice, such as inspection or assessment. It is wiser to speak of a cluster of definitions which overlap but are not identical. Second, one must not in any case understand that the production

of official definitions of a practice like auditing, in a legislation or promotional documents, is an idealised, normative projection of the hopes invested in the practice, a statement of potential rather than a description of actual operational capability. Defining auditing is largely an attempt to say what it could be."

The questionable nature of the definitions given to the VFM audit can be shown by highlighting the definition given by the Victorian Auditor-General's Office (VAGO) in their first Victorian Performance Audit Methodology manual (VAGO, 1991, p. 1-6.)

"In broad terms, a 'performance audit' may be defined as an audit relating to any matters concerning the performance of an organisation other than those connected with the fair presentation of financial statements."

The Office of the Auditor-General of Canada (OAGC, 2004, p.13) has defined the VFM audit function or Performance Audit function as follows:

"A performance audit is a systematic, purposeful, organised and objective examination of government activities. It provides Parliament with an assessment on the performance of those activities; with information, observations and recommendations designed to promote accountable government, an ethical and effective public service, good governance, sustainable development and the protection of Canada's legacy and heritage. Its scope include the examination of economy, efficiency, cost effectiveness and environmental effects of government activities; procedures to measure effectiveness; accountability relationships; protection of public assets; and compliance with authorities. The subject of the audit can be a government entity or activity (business line), a sectoral activity, or a government-wide functional area."

These definitions could be interpreted as any non financial audit conducted

by the respective State Audit Office (Auditor-General's Department) as a VFM or Performance Audit (PA). Its scope could be changed from one State Audit Office to other State Audit Office depending on the environment and country they operate.

Lindeberg (2000) has analysed the textbooks in auditing and evaluation Practices to determine whether the auditing is distinct from other evaluation practices. He has compared the VFM or performance audit with financial audit and programme evaluation in order to explore his research objectives. Lindeberg has identified the VFM audit or performance auditing as follows (Lindeberg, 2007, p.338);

"Performance auditing is not a prototypical form of auditing that we would expect to fit neatly into the category 'audit'. Rather, performance auditing appears to be the oddball in the auditing family and it is therefore likely that we will be able to observe problems of classification."

He has analysed the textbooks on auditing and evaluation practices as the research method. In order to analyse the characteristics of the three subjects, financial audit, performance audit and programme evaluation, Lindeberg has used four comparing scales. They are criteria applied, data collection method, practitioner requirements and reporting practices. He has concluded that the financial audit and performance audit do not have similar characteristics. He has also highlighted that the performance auditing and programme evaluation do have similar characteristics. Lindeberg has mentioned that the financial audit, performance audit and programme evaluation sit on a horizontal continuum. These three functions sit on three different places in this continuum. He has finally mentioned that the four criteria had indicated that the performance auditing and programme evaluation is much closer with compared to the financial audit. The deficiency in



this research study is that Lindeberg has not compared the audit mandate and the independence of the person who is carrying out the performance audit and financial audit. In that way, the financial audit and performance audit is much closer as these two functions are carried out by an independent officer of the parliament.

3. Development of the Value for Money (VFM) audit function within the New Public Management (NPM) reforms.

The public administration structure of the developed Westminster countries has been changed since 1970s. This public administration reform programme has been identified as the New Public Management (NPM) movement (Hood, 1979). After the Second World War, the public administration system of the Westminster countries has been identified as the Progressive Public Administrative (PPA) movement. Under this PPA approach or concept, the main objective of the government was the social welfare concept. This created the growth of the public sector. The public administration system was much oriented towards the processes and procedures. The management philosophy of the government entities have not paid much attention towards the private sector management models such as the input and output relationships. This has resulted in budget deficits and inefficiency of the public administration system. The PPA became a burden to the economic growth and the society. As a result, the NPM programme emerged. These NPM reform programmes have been introduced in the countries such as United Kingdom, Australia, New Zealand and Canada. The main objectives of the NPM reform programme were to have the limited government and economy, efficiency and effectiveness in the usage of government resources. Hood has identified the NPM as follows (1989, p.349);

“NPM is a convenient, if somewhat loose, shorthand to denote the set of quite similar administrative doctrines which came into ascendancy in the late 1970s and the 1980s and dominated the agenda of public administration in many countries, including New Zealand, Canada, Australia (particularly under the Cain government in Victoria and the Greiner government in New South Wales), and the United Kingdom.”

The Australian public sector, accountability and public sector audit landscape have changed dramatically since early 1980s. This change is a contemporary trend developing around the developed English speaking nations such as USA, Canada, United Kingdom, New Zealand and Australia. The scholars and public sector

and compliance audit role which they carried out for over the centuries had to be modernised as per the demands of the developing and changing societies. The Westminster countries had adopted their public accountability and auditing tradition from the United Kingdom as the mother nation. The public sector auditing function has been operating in Victoria, Australia since 1851. In order to adjust according to the changing public expectations, the Auditors-General in Australia have introduced the VFM audit methodology in early 1980s. The VFM audit function has complemented the NPM movement as a new public accountability mechanism. (Jacobs, 1998, Guthrie and Parker, 1999). Power (1997) argued that from a UK perspective the

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managers has identified this trend as the “New Public Management (NPM)” movement (Hood, 1991; 1995). This development has been identified as the “Public Sector Managerialism” in Australia and New Zealand (Zifcak, 1997, Parker and Gould, 1999). Barton (2006, p.256) described this reform process as follows:

The public sector in Australia and elsewhere has undergone extensive reforms over recent years, one of which has been the outsourcing of many services to private providers. This is being done as part of a philosophy espoused in New Public Management, under which the public sector is encouraged to adopt business-like practices.

As a related development, the public auditors or Auditors-General operating in Westminster countries had to adapt to the change process. They have realised that the traditional financial

rise of VFM audit was seen as a central part of the NPM reform agenda. He maintained that both the managerialist references to performance measurement and that the hollowing of the state often associated with the more economic aspects of the reform process both lead to greater demands for audit as embodied by the VFM growth (Power, 1997, p. 44). Funnell (1998, p.441) made a similar point for the growth of the VFM audit function within the Australian context:

Efficiency auditing provided the opportunity to liberate Australian state audit from the confines of its past. Compared to financial or compliance auditing, efficiency auditing can be far more potent because it is a highly intrusive form of audit. (p. 441).

The Victorian Auditor-General's Office (VAGO) has commenced the VFM audit function 1982. The introduction

The audit objective of the annual financial audit is to provide an assurance on the public sector financial reporting function.

of VFM audit occurred in the context of a wider change and modernisation of public sector audit methodologies. This modernisation technologies of the Victorian Auditor-General's Office (VAGO) have included the establishment of time budgets, the recruitment of professional accounting graduates, the growing use of computer auditing systems, risk based sampling approaches and a growing use of internal control review rather than a straightforward verifying and checking approach (Yule, 2002). The Australian National Audit Office (ANAO) had also adopted similar changes in the public sector audit process at the same time (Hamburger, 1989; Guthrie and Parker, 1999).

4. Brief overview of Public Sector Audit

The Auditor General's office powers, audit mandate, duties and functions are of paramount importance in the arena of public accountability in the Westminster style of governments. The basic features of this public accountability in the Westminster style of government are that the parliament is elected by the people. The elected members of the parliament are given the authority and power to implement the government policies and programmes for a certain period of time. As a measure of public accountability, all the government forecasted expenditure and revenue to be approved by the parliament as an annual budget every year. Only after approval

of the annual budget, the government programmes and policies are implemented. Accordingly, the executive¹ is responsible to the parliament to prove the public accountability in relation to the government revenue and expenditure. This process has been identified as the financial stewardship process. This whole concept of the financial stewardship is embedded in the agency theory. The executives are the agents of the general public. Accordingly, they are the trustees of the public resources. Therefore they have a responsibility of financial stewardship. In order to ensure the transparency and accountability, the Auditor-General as an Officer of the Parliament carries out the audit function of the financial statements of the government entities.

As a control mechanism, the government expenditure and revenue received to be audited by an independent officer of the parliament. This independent officer is the Auditor-General. The Auditor-General audits the financial statements of government entities and consolidated financial statement (whole of government financial statements) of the government. After completion of the audit, the audit reports are tabled in the parliament by the Auditor-General. These Auditor-General's reports are reviewed by the Public Accounts Committee of the Parliament and recommends the corrective actions to be taken by the executive. This is an annual cycle.

In order to fulfil the state audit function duties and responsibilities, the Auditor-General carry out a programme of performance audits and financial audits. The objective of the performance audit is to report on the economy, efficiency and effectiveness

of the usage of the government resources and implementation of the government policies by the executive. The performance audits or Value for Money (VFM) audits were commenced in Australia in the early 1980s. The performance audit has thrived under the concept of New Public Management (NPM) or Managerialism approach to the public administration. The audit objective of the annual financial audit is to provide an assurance on the public sector financial reporting function. The Auditor-General expresses an audit opinion about the true and fair view of the annual financial statements of the government entities under the financial audit. The VFM audits are done on selective basis for a few government entities, government programmes or projects. The selection of the VFM audits is done by the State Audit Office. The Victorian Auditor-General's Office (VAGO) in Australia consults the Public Accounts and Estimate Committee (PAEC) of the Victorian Parliament in selecting and preparing the annual plan for the VFM audits to be carried out.

5. Technological aspects and audit tools of the Value for Money Audit (VFM)

I have reviewed the VFM audit manuals, audit reports, audit software packages and a few sample VFM computer audit files relevant to one of the State Audit Office in Australia. In my previous article (Dahanayake, 2007), I have explained the financial audit methodology known as the Integrated Public Sector Audit Methodology (IPSAM) applied by the two State Audit Offices in Australia. I will briefly summarise the technological platform of the VFM audit function in one of the State Audit Offices in Australia. The

¹ The executives have been identified as the members of the governing party of the State Parliament and heads of government organisations. The government organisations include government departments, statutory bodies and government owned companies and corporations.



entire VFM audit function is governed by the audit methodology identified as the Audit Method-Performance (AmP)². This document contains the scope, procedures and processes of the VFM audit. This audit methodology manual has been developed or programmed into each VFM audit carried out by the State Audit Office. The VFM audit files are operated by using the computer files and these files can be stored in the laptop computers as well as head office computer servers. These VFM audit files are run on the Lotus Notes database system. The Audit Method-Performance (AmP) audit methodology manual is further expanded into three audit stages. These stages are audit planning, audit filed work and audit reporting stages. The audit programmes relevant to each stage of the audit will be further extended to the same audit files. Accordingly, the auditors who carry out the VFM audits complete their audit tasks electronically and record the data under each audit programme. The VFM audit is almost similar to a qualitative programme evaluation carried out by an independent officer of the parliament. Even though the task is qualitative, the scope of the audit, audit programmes, audit evidences and audit reports have been electronically managed by using the computer files. One VFM audit computerised file is similar to a large document cupboard where the auditor could store the audit programmes, audit work papers, audit evidences and audit reports in separate divided compartments. The State Audit Office maintains only very limited hard copy documentation in relation to the audit permanent file. All these computerised audit techniques are known as the Computer Assisted Audit Techniques (CAAT).

6. Past Research Findings on the Value for Money Audit (VFM)

I have summarised a few academic research articles focused on the VFM audit function. These research studies have been carried out to examine the VFM audit practices of State Audit Offices of Australia and Canada. The researchers have attempted to examine the nature of the VFM audit practice. The summary of these research studies are given in the following paragraphs.

Hatherly and Parker (1988) have reviewed six sample VFM audit reports completed by the Australian National Audit Office (ANAO), Victorian Auditor-General's Office (VAGO) and South Australian Auditor-General's Office (SAAO). They have reviewed two VFM audit reports per one State Audit Office (SAO). They have examined the VFM audit reports in respect of audit concepts adapted, audit report content, audit report format and auditee responses. In relation to the audit concepts, audit report content and audit report format, they have examined whether the actual VFM audit reports are incompatible with the auditing literature and international or contemporary VFM auditing practices and standards. They have also reviewed and compared the actual auditee response with the auditee response observed in the international literature. They have also confirmed the fact that the qualitative characteristic of effectiveness has not been the part of the scope of the audit of the ANAO and SAAG. However, VAGO has included all the three qualitative characteristics of economy, efficiency and effectiveness as the scope of the VFM audit function. They have concluded that the standard VFM audit literature and actual VFM audit reports outcomes were different for the

concepts adapted, report content and report format. They also concluded that there were no significant differences in the auditee response in relation to the previously observed auditee responses. The positive side of this research project is that the authors have adequately summarised the various definitions given for the performance audit, value-for-money audit, operational audit and management audit. They have indicated that although these audit terminology identify them as different audit functions, all these auditing functions have overlapping qualitative characteristics of economy, efficiency and effectiveness.

Hamburger (1989) documented the development of the VFM auditing in the Australian National Audit Office (ANAO) from 1974 to 1987. He used the terminology of performance audit and efficiency audits without making any effort to define the terminology used. His research was basically aimed at documenting how the three Auditors-General who worked during this time span have shaped the VFM audit function of the ANAO. These three Auditors-General were D R S Craike, K F Brigden and J V Monaghan. The researcher has attempted to explain that the Auditor-General's personal attributes and thinking had shaped the VFM audit function. In this research article, it clearly indicates that the scope, methodology and approach of the VFM audit was based on the Auditor-General's attitudes and approach towards the VFM audit function. His concluding remarks support this hypothesis which is given below:

The history of the AAO over the past fifteen years shows little agreement on what performance audit in the public sector should be reviewing, who should be doing it and why. The objective began as

² This VFM audit methodology is used by the Victorian Auditor-General's Office (VAGO) in Victoria, Australia. The copyright of the methodology is owned by the VAGO. I have used the name of the methodology for academic research purposes with the permission of the VAGO.

The VFM audit function has become a very powerful accounting technology in the developed commonwealth countries.

accountability and moved past value-for-money review to something like management consultancy. It then swung back to an uneasy compromise between accountability and value-for-money, satisfactory to neither auditees nor parliament.

Hamburger (1989) has examined the VFM audit function from the bird's eye view instead of the "Nuts and Bolts" approach by reviewing the scope of the audit, report format and audit mandate direct from the audit reports.

Gendron et al (2001) have examined the changing role of the public sector audit in the Province of Alberta in Canada. The major objective of this research project was to study the changing role of the Auditor-General of the Province of Alberta from traditional financial auditor role to the audit of efficiency and effectiveness of government programmes. They have also studied how this changing role has impacted on the perception of the independence of the Auditor-General. This research study was a longitudinal project and research period was from 1979 to 1997. As per the authors, the Auditor-General of the Province of Alberta has worked as the management consultant on best practice recommendations as part of the New Public Management (NPM) reforms. The authors have briefly explained the progress and development of the New Public Management (NPM) reforms and changing roll of the Auditor-General of the Province of Alberta from early 1970s to 1997. The authors have also briefly described the relationship between the state auditing function and independence of the auditor.

Gendron et al (2001) have attempted to evaluate whether the independence of the Auditor-General has impaired as the Auditor-General had carried out his duties as an advocate of the New Public Management (NPM) reforms. The researchers have concluded that the Auditor-General had to maintain a delicate balance between the independent auditor and management consultant. The authors have also mentioned that the independence is lost when the auditor acts as a consultant. The authors have indicated that the analysis of the annual reports of the Audit Office highlighted the fact that the Audit Office has become an advocate of the performance-accountability framework. In concluding remarks, the authors have mentioned that the Audit Office had compromised its independence by promoting the government agenda of the New Public Management (NPM) framework. The strengths of this research article is that it is the first longitudinal research study that has been carried out on the Value for Money (VFM) audit by evaluating the audit reports or annual reports published by an Audit Office. The authors have reviewed the annual reports published by the Auditor-General's Office of the Province of Alberta. They were not very clear about whether the Value for Money (VFM) audit findings are reported in the Office's annual report or they are reported as separate Value for Money (VFM) audit reports similar to other jurisdictions in Australia.

Guthrie and Parker (1999) reviewed the VFM audit function of the Australian National Audit Office (ANAO) for a twenty five year period from 1973 to 1998. They have done this research study within the paradigm that accounting is a social construct and the profession and practices changes as per the needs of the contemporary societal

requirements. They have used the NPM and "Managerialism" approach to explain the development process of the VFM audit function of the ANAO. The research objectives for this study are three fold and they are to identify the changing nature and form of performance audit technique, to highlight how the ANAO's performance auditing technology as a malleable social construct with various configurations and to probe the linkages between contests for remoulding the technology and surrounding social, political conditions and forces. This study is a longitudinal research study. They have used the research data taken from the parliamentary records and ANAO records. These research data included parliamentary legislation, parliamentary debates, parliamentary committees' reports and Department of Finance's minutes, ANAO performance audit reports, ANAO internal and external documents and official speeches and professional and academic literature. They have further highlighted that their study focused on two levels such as individual and institutional level comparison to the Funnel's (1998) study of VFM audit function developments based on institutional level analysis. They concluded that the VFM audit function as a malleable masque changing the actors, play and the story as per the individual attributes, attitudes and political needs of the era.

Pollitt (2003) has explored the VFM audit practices in the five Supreme Audit Institutions of Finland, France, The Netherlands, Sweden and the UK. Pollitt's (2003) objective was to document and explain the key strategic choices faced by the Supreme Audit Institutions (State Audit Offices) on the VFM audit function. Pollitt's (2003, p. 158) has focused on the methods used, the criteria applied, the products generated, by the VFM audits and the nature of the performance auditor or VFM auditor's craft. Pollitt



(p.164, 2003) has categorised the VFM audit report findings into four roles; the public accountant, the management consultant, the scientific or research based organisation and a judge or magistrate. This research study has revealed that the VFM audit function is no longer just a compliance technology but has often embraced managerialist aspects of NPM reforms.

There were other recent research papers on the VFM audit. Radcliff (1999) has examined how the VFM auditors determine the efficiency and effectiveness in the usage of public resources. The research site was the Audit Office of the Province of Alberta, Canada. He has applied an anthropological approach and examined three live VFM audits while the auditors were in the field. He has concluded that there is no definite methodology in determining the efficiency and effectiveness in the VFM audit work. He has mentioned that the auditors determine the efficiency and effectiveness of the usage of resources by the government entities based on the environment in which they operate. Gendron et al (2007) have examined how the Audit Office establishes their claims to expertise as the experts in the VFM audit. They have applied the Actor Net Work theory (Latour, 2005) to explore the research objectives as the research methodology. They concluded that the Audit Office has established their claims to expertise by building networks among the government entities. Jacobs (1998)

has examined the VFM and NPM reforms in the Auditor-General's Department of the New Zealand. He has concluded that the VFM audit function of the Auditor-General's Department of New Zealand has changed and became an advisor to the Public Accounts Committee of the New Zealand Parliament.

Based on these research findings, there are some salient conclusions can be made. The VFM audit function is a very powerful audit technique applied by the state Audit Offices (Auditor-General Departments) in the developed Westminster and OECD countries. However, the VFM audit function does not have definite audit methodologies similar to the financial audit function. The VFM audit function is different from one jurisdiction to the other. It is also operated as per the idiosyncratic influence of the Auditor-General. The VFM audit function has been identified by Guthrie and Parker (1999, p.) as a malleable drama. That means the VFM audit function change the drama, play and actors based on the surrounding political environments.

7. Conclusions

The VFM audit function has become a very powerful accounting technology in the developed commonwealth countries like Australia, United Kingdom, New Zealand, Canada and developed OECD countries. The literature review has revealed that the VFM audit function is an independent audit activity where the

auditor examines the economy, efficiency and effectiveness of the usage of the resources by the economic entities as the scope of the audit. The VFM audit function is mostly carried out by the State Audit Offices (Auditor-General's Departments). The VFM audit function is similar to the qualitative programme evaluation. However, the VFM audit is carried out by an independent officer (Auditor-general) of the parliament. The VFM audit function has revived the ceremonial public accounting and audit function in the Westminster system developed commonwealth countries. The federal and State Auditors-General of these countries are recognised as very powerful officials by the legislators and community. The VFM audit function has set the legislators in these countries more accountable to the parliament and the community. All the research findings on the VFM audit have concluded that the VFM audit function has elusive methodologies and remain a 'black box' (Latour, 1987) to the academic researchers and practitioners. One of the notable characteristics of the VFM audit practice in the State Audit Offices in Australia is that the Auditors-General have not been permitted by the respective audit legislations to examine or criticise the federal government or state government policies as the scope of the VFM audits. The VFM audit function does not have a defined audit methodology. The VFM audit scope and methodology is different from one State Audit Office to other State Audit Office.

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Improving People Performance

Why the need?

"As life is lived, understanding that each human being has strengths and weaknesses, qualities we admire and do not admire, competencies and incompetencies, assets and debits, that the success of each human life is not measured externally but internally; that all the reward we can confer on each other, the most precious is a place as a valued fellow citizen."

-Richard Herrnstein and Charles Murray, 1994

In today's dynamic world, organisations face a very competitive environment not only locally but also in the international arena. International competition is more intense as many large organisations with better economies of scale and technology have a competitive advantage.

Therefore, competing in today's world with threats of the "ever changing com-

merce," it is admirable to see that large organisations re-invent themselves in order to maintain the EDGE...which one might concur to be the chameleon effect and as the identity suggests, most have become masters of change even outdoing the reptile.

The real success of a company lies in the human strength and its impact on performance. It's the drive and the passion of people that steers a company to thrive, in achieving its goals. Even companies in the most volatile environments have survived due to the willingness and determination of its employees. No matter what sort of a world class process you follow or a best practice you implement, if you, as an HR practitioner avoid identifying the immediate needs and not meet the needs of your human capital with a long term view and strategies, you will never be able to reap benefits from your Human Resources, in the long run.

What are we doing now?

As HR practitioners, managers and executors of Human Resources, we are all aware of the best methods and systems of measuring employee performance and rewarding them accordingly. Companies endeavor to learn the best practices and world class processes in how best to measure and identify the talent available and thereby raising the bar and concentrating on how one should reward and retain the cream of the crop in an organisation.

If performance is graphically captured it should be a normally distributed bell curve. The high performing employees will comprise of 10 - 20%. Non performers' composition will also be in the same region. A majority of employees which is around 60 - 80% - average / good performers are the strength of the company as this comprises of the largest portion of human capital. But most of the performance appraisal and rewards and recognition schemes are built in order to retain the high performing niche to be treated and looked after well. Do we ever look at the consequences of rewarding talent by having a plan for the others to manage dejection, post appraisal?



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The appraisals are done either quarterly, bi-annually or annually, however more frequent reviews will reveal poor performers in advance. How many of us would take time to understand the problem and try to find solutions before it's too late? It is our responsibility as a superior, to make our subordinates perform and we are partially responsible for our subordinate's performance, whether successful or unsuccessful. There can be no superior, who could be rated as a high performer if his / her subordinates are rated as poor performers, as it is one of our main responsibilities to ensure performance of our subordinates.

What are we avoiding?

“Do we, as a respectable entity, engage sufficient time, in commending the efforts of the average performers and their feelings?”

“What do we do with the under performers? Do we just discard them without considering the cause for failure?”

Rewarding and retaining talent may have been the ideal method a decade ago, as the star performers in an organisation make a vast difference to the overall performance. Therefore, protecting your high end and rewarding them is essential. However, now it is equally important to concentrate on your majority and understand how the reward systems affect them. No Performance Management System is perfect. There may be many misinterpretations and errors

We should spend sufficient time with our employees, understanding as to how they could perform better or what hinders their performance thereby improve the human capital.

made when executing these systems. It should be well understood that your stars alone cannot run the organisation, if the majority do not contribute. The backbone of your organisation is the strength of human capital in its totality and this includes the majority of non star performers as well.

What should we be doing?

Dr John Lavelle's, retired HR strategist, World Bank-speech at the AHRPM HR awards night in February this year, in Colombo, was an eye-opener for all of us, who do not think out of the box, but follow HR processes without bottom line impact. He spoke about missing the correlation between HR initiatives and the impact on business results and the importance of HR regaining the position of influence as a driver of business. Any HR initiative should be looked at from the business perspective in order to complement the overall performance of the organisation, not as an isolated process.

Therefore, merely rewarding and retaining your minority talent pool is not sufficient to run a company successfully, as the majority is not covered. It also should not be a slave driven process to reach its goals. We should spend sufficient time with our employees, understanding as to how they could perform better or what hinders their performance thereby improve the human capital. The crucial factor in any process is the applicability and practicality in any system, henceforth any world class process that has been implemented should

be fine tuned or modified accordingly, subsequent to a SWOT analysis.

“An employee's performance and thus his/her appraisal depends not just on the person's motivation, but on how well you identified the job's duties and screened and trained the employee.”

-Garry Desslerer

The ASCEM Model sets out methods on how to manage employees more effectively.

- 1 Analyse the cause for poor performance (Analysing) and addressing the issue.
 - Most common causes
 - Multiple causes
- 2 Introducing problem solving techniques (Solving)
- 3 Counselling and coaching (Cooperating)
 - Responsibility of the superior
 - Time involvement
 - Commitment
- 4 Evaluating and monitoring progress (Evaluating)
 - Selecting the right monitoring mechanism
 - Evaluating progress
- 5 Making the right decision (Maintaining)
 - To retain, remove or transfer

1 Analyse the cause for poor performance (Reasoning)

Why do employees fail to achieve the required target or objectives? There can be various causes for this problem. It could be one or more.





Most common factors:

- **Lack of understanding or communication between the superior and the subordinate** – Sometimes the superior may fail to clearly communicate the desired objectives to the subordinate thereby the superior and the subordinate may not have a mutual understanding of what need to be achieved.

Prevention: When setting goals the objectives should be clearly defined and regular feedback on progress will improve your subordinates from under-performing. In managing larger groups where you need to supervise over ten or more individuals, the best method would be to sub-divide them into smaller groups of ten or less and assign more senior employees among them to monitor and provide feedback. Ex: A larger workforce being managed by regional sales people and the regional sales people report to area managers and so on and so forth. Documenting the agreed objectives and the progress will prevent employees being off track.

- **Personal problems** – Some great performers may have slowed down due to family, health and other personal issues.

Prevention: This is a common problem that's occurring currently and it is the responsibility of the superior to gauge, identify and balance the activities in a diplomatic manner. The superior needs to investigate as to what has gone wrong and assist the person by counselling or referring to a professional counsellor to overcome these problems or to enhance coping skills before it affects one's performance. This is a broad area but with proper assistance of Human Resources and managerial skills you should be able to find the most appropriate solution and assist your employees.

- **Internal issues** – Due to peer pressure, under performance of subordinates, other internal politics or organizational policies or structures, employees will have issues of under performance.

Prevention: You may need to understand the gravity of the cause and rectify it accordingly.

- **Recruiting the wrong person for the job (Square pegs in round holes)**

Sometimes you may identify that a certain individual you may have recruited does not fit the job. This could also be due to scarce resources available in the market.

Prevention/cure: In this instance by looking at the strengths and weaknesses of the person you need to transfer him/her to the right position or make a decision before it's too late. Sometimes you may need to nominate the person to some development programme or a training session. However, this could be identified before a person is confirmed in a particular position. If the problem persists, you may need to reconsider your recruitment process and strategies in the long run.

- **Multiple causes** – It could also be due to more than one of the above reasons that affect one's performance. What is important is investigating the cause and identifying proper solutions. The involvement in identifying the problem itself would be the cure to the problem as most employees would feel important when they know that you have been considerate and paid attention. You may not even need to find solutions to the problem. The key to success is understanding your employees and the situations that they are in.

Introducing problem-solving techniques (Solving)

There is no solution without an answer. Sometimes the answer might be in cop-

ing with the problem. Ex: An employee might find it difficult to concentrate at work due to a separation from his wife. As a manager you may not be able to find a marital solution for the problem. But you will be able to assist the person to cope with the situation. Be empathetic and understanding during the difficult times and also get the person involved in different tasks which give a variety of responsibilities etc. You can help the person to identify the problem by him/herself and come up with all possible solutions.

Counselling and coaching (Cooperating)

- **Responsibility of the superior** – In many organisations you isolate your under-performers after rating them low, but never try to investigate into the cause of the problem. The supervisor is also equally responsible for the subordinate's performance and should be able to rectify things before it affects the company.

- **Time involvement** – All managers and supervisors need to consciously allocate sufficient time to understand and deal with employee relations. You may not need a formal process to conduct this, but find your own method to suit the best way to improve this as it may depend on the culture of the organisation.

- **Commitment** – There should also be a genuine commitment and interest to develop and assist your subordinates and take away your biases. Sometimes you may not approve / dislike the ways of certain employees, but it should never come in your way, when you deal with this type of problems. If you engage appraising your employee for the sake of doing it, the real benefits will