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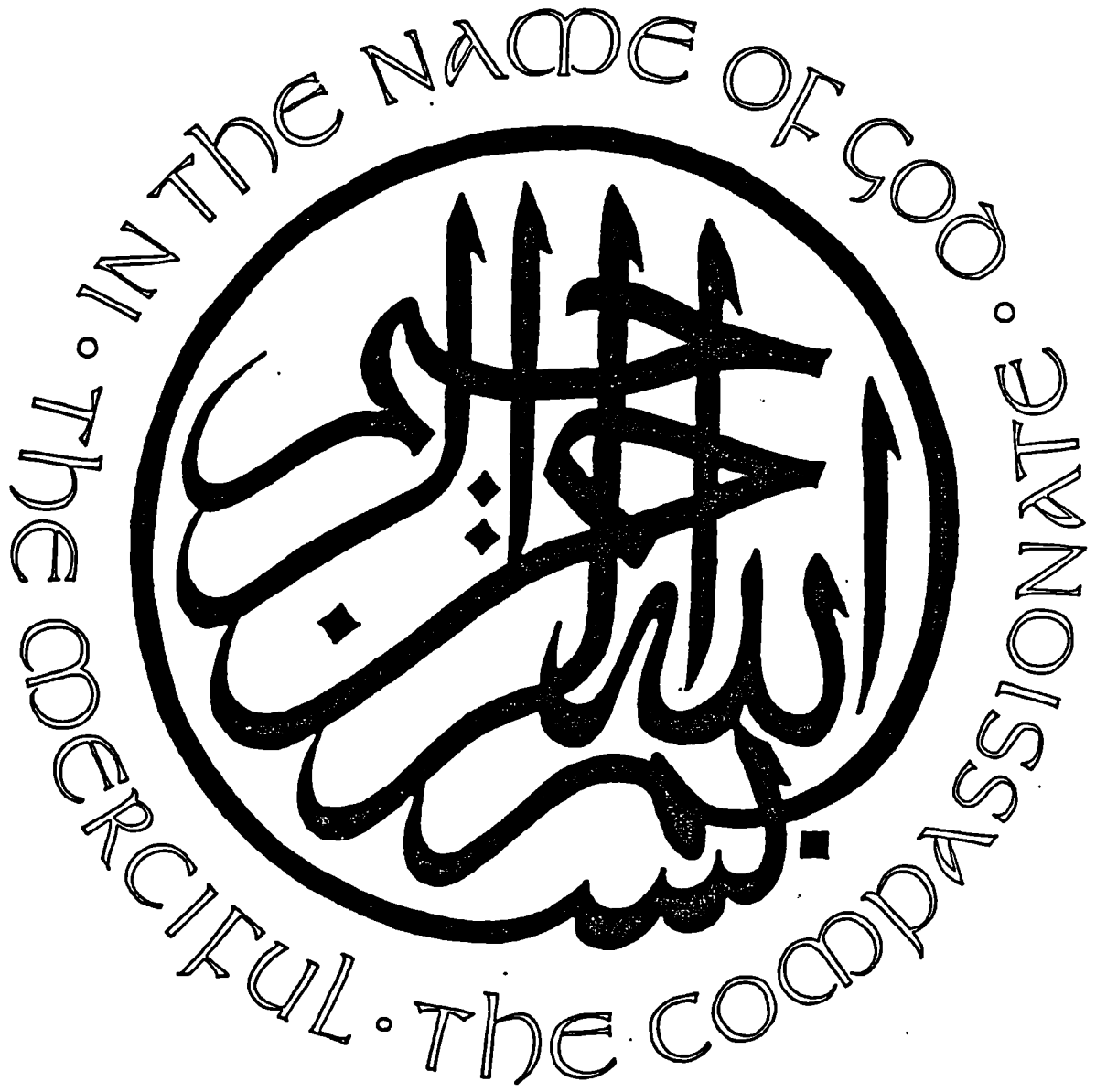
OPERATIONAL AUDITING PRACTICES IN
WESTERN DEVELOPED COUNTRIES:
IMPLICATIONS FOR GOVERNMENT AUDIT
IN THE STATE OF KUWAIT

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CHAPTER SIX

THE SWEDISH AND AMERICAN APPROACHES
TO OPERATIONAL AUDITING

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Introduction

Sweden

Swedish Approach to an Audit of Non-Financial
Activities.

Objectives of the Effectiveness Auditing in
Sweden

Agencies Responsible For Auditing Government
Performance

The Parliamentary Auditor

National Audit Bureau

Swedish Audit Approach

Effectiveness of the National Audit Bureau

The United States of America

GAO Audit Approach

Functions and Responsibilities of GAO

The Effectiveness of GAO Review

Similarities and Differences Between The US GAO
and Swedish Approaches.

CHAPTER SIX

The Swedish and American Approaches To Operational Auditing

In previous chapters the researcher reviewed the literature on operational auditing with the purpose of understanding the general approach in conducting this type of audit. Furthermore in the last chapter the British and Canadian approaches in performing the audit of non-financial activities were described.

In this chapter, the researcher will describe the practical experience of two more developed countries, Sweden and the United State of America.

The layout for this chapter is similar to the previous one. Swedish terminology and approach will be covered in the first section, while the second will describe the American approach to auditing of non-financial activities. The researcher will then compare the Swedish approach with the American one to identify the basic differences between the two and the results of this comparison will be presented in the last section of this chapter.

I SWEDEN

In 1967 effectiveness auditing [EA] was introduced in Sweden after increased public demand for more efficient and effective government services and activities. It was believed that effectiveness could be measured and analysed in terms of numbers and the like.

There was widespread belief that traditional systems of budgeting and auditing were inadequate.¹

When EA was introduced, it was a part of a whole package which is known as "The Swedish Economic-Administrative System" (SEA), a complete system which comprises subsystems of planning, budgeting and accounting.

The intention behind the introduction of SEA was to meet the need of "strengthening the capacity for external evaluation after economic decisions had been made".²

Consequently, the Swedish National Audit Bureau's [SNAB] responsibility for financial auditing was delegated and decentralised to the agencies themselves through organising government agencies into several accounting groups. Each group has an accounting centre for financial transactions and an auditing office for financial auditing.

During the early stages of effectiveness auditing in Sweden, SNAB followed straightforward and simple approaches and techniques. Later, an indirect approach of studying preconditions for effectiveness rather than studying effectiveness itself, was adopted.

At the present time, and for reasons such as cost-effectiveness, the Bureau has adopted a system-oriented approach rather than agency-by-agency approach.

The Swedish Approach to an Audit of Non-financial Activities:

The SNAB has adopted the term "Effectiveness Auditing" [EA] to describe their approach to the audit of

non-financial activities. Berggren, the Auditor General of Sweden and Head of the Swedish Audit Bureau, gives a definition of the purpose of effectiveness auditing:

"Effectiveness auditing in the central administration involves examining the effectiveness and productivity of an agency or an activity. One purpose of this is to check that activities are being carried out in a functional, systematic and economically satisfactory way. Effectiveness auditing should also give rise to all ideas and incentives for improvements at all levels of the central administration. The ultimate goal of the audit is to promote effectiveness in public administration".³

According to Berggren, effectiveness auditing in Sweden embraces economy, efficiency and programme results audits.⁴ He defines effectiveness as:

"The relationship between the results which the performance produces in the community and all the sacrifices involved therein including sacrifices which cannot be directly price tagged."⁵

Objective of the EA in Sweden:

The NAB appointed Committee of 1970, identified four main objectives for EA in Sweden:

- "1. To analyse the activities of government agencies.
2. To stimulate agencies to do this by themselves.
3. To offer them suggestions for improvements.
4. To supply governments with economy information in order to improve the basis of future policies."⁶

Agencies responsible for monitoring government performance:

In Sweden the responsibility for scrutinising government programmes and projects is shared by several institutions. The Parliamentary Ombudsman is responsible

for monitoring administrative legality on behalf of Parliament, while the Chancellor of Justice has a similar responsibility on behalf of the government. In addition, the Swedish Agency for Administrative Development [SAAD] is mainly concerned with improving the efficiency and effectiveness of the public services. SAAD is not an auditing agency, but it is the government's expert in matters of administration, and primarily deals with organisational problems and the development of administrative methods.

The responsibility for auditing practices rests with two institutions:

1. Parliamentary Auditors,
2. National Audit Bureau [Riksrevisionsverket, RRV].

The Parliamentary Auditors:

This institution is composed of twelve auditors and the same number of deputy auditors, all being members of the Parliament [Riksdag], and all are elected for one year at a time. They have a permanent secretariat of twenty staff. They operate through three-subcommittees, and are mainly concerned with matters of effectiveness rather than traditional financial and regularity audits.

Each Parliamentary Committee makes suggestions for audits and is encouraged by the auditors to do so each year. The staff examine the proposals and make suggestions to the auditors for further and in-depth investigations. When the audit project is completed the audit report is made public and a copy is sent to the

relevant Parliamentary Committees.

The National Audit Bureau [NAB]:

A main government agency with responsibility for accounting and auditing within the central administration, NAB is directly responsible to the Budget Ministry. The government gives the Bureau a mandate and the necessary resources to carry out effectiveness audits in all areas that are funded via the state budget.⁷

Below is a list of NAB's main areas of concern:

- "1. Audit of agencies and development of audit methods.
2. Development of methods for planning, budgeting and accounting.
3. Framing and supervision of the public accounting system.
4. Training of personnel in the field of effective and efficient administration such as planning, budgeting, accounting and auditing.⁸

Over the last decade NAB experimented with different approaches to the auditing of non-financial activities. The Bureau now considers its main task is to ensure that the government agencies and their activities are economic, efficient and effective. It plays a limited role in performing the traditional financial audit which nowadays is the responsibility of the individual agencies themselves. The Bureau's role is that overseen, controlling and supervising by issuing regulations and manuals, giving advice and arranging conferences etc. An exception to this is the NAB's responsibility for auditing state Public Utilities such as the Post Office

and Swedish State Railways.

The Bureau's, activities are organised into two main programmes. The first covers the auditing task, where the auditing departments are organised along sectoral lines such as health, defence etc. Since 1980 The Bureau has been trying to develop a new audit system which selects and concentrates on problems which are common to several agencies [matrix system]. The second programme involves collecting and analysing data for the public sector as a whole, helping the agencies to plan and account for their activities, producing statistics on Public Finance etc.

Audit Approach

The Swedish approach takes the annual budget process as a starting point for initiating a dialogue between the Bureau and the Government, concerning the overall guidelines for the audit programme, given the framework of the general mandate and the guidelines put forward in the finance Bill.⁹

While it has full discretion over selecting agencies, projects, themes and areas for audit investigation, there are several factors which help The Bureau to use its resources economically and effectively by selecting areas where the audit could yield a higher return. These factors are:

- The specialist competence of the staff that from the particular audit unit.
- The on-going monitoring of trends and events in the agency's area of responsibility. (The staff of the audit Departments continuously monitors government bills, Committee reports, agency budget requests and the like).

- The general guidelines put forward in the Bureau's internal planning system.
- Conclusions from "pre-studies" and recently completed projects.¹⁰
- The size of an agency's budget.
- The importance of the agency from an economic or socially strategic point of view and its political salience.
- The extent to which The Bureau may have reason to believe that the agency is experiencing problems of some kind.¹¹

Once a project has been selected, NAB discusses with the agency concerned the nature and organisation of the audit project. According to Berggren the auditor then directs his effectiveness evaluation at three aspects, these are:

"Goal analysis:

which involves examining how the agency interprets and operates and operationalizes the intentions of Parliament and Government, how it arranges the strategic planning of its own activities and how external effects are followed-up. This aspect also includes analyses of an agency's external relations

Audit of Operations:

which involves examining an agency's production. An examination of an agency's performances is here linked as far as possible with an examination of the actual effects that are generated. Resource utilization is also examined in this context.

Audit of systems:

which involves examining the agency's control system, its organization and administrative support functions. Planning for short and medium term, budgeting and follow-ups are included in the framework for this examination."¹²

The detailed effectiveness audit model of the NAB could be divided into four phases:

- The pre-project phase
- The project in operation [overall analysis]

- phase
- Outcome of the project and reporting phase
- Follow-up phase

The Pre-project phase:

The audit projects usually are preceded by pilot studies lasting up to a month¹³ with aims to chart and analyse the activity to be scrutinised. The scope of this phase varies from just a review of the legislative basis for a programme and the availability of data, to a major review of a policy area in order to pinpoint structural problems and develop an audit-strategy. Factors such as the findings of the pilot studies, and answers to questions such as, to what extent do the effects of activities agree with their goals?, how well is an agency run? and, is the productivity level acceptable?¹⁴ determines the focus and confines of this phase.¹⁵

In this phase the nature and organisation of the NAB's audit project is discussed with the agency concerned. At this stage a lot of bargaining takes place between the two. The agency tries to dissuade the NAB team from reviewing the actual policy which it is implementing,¹⁶ and in some cases, certainly, the agency succeeds in its efforts.

The Project in Operation or overall analysis phase

The outcome of the previous phase not only determines whether to pursue the audit review, but also identifies those activities that the audit project should focus on, if it continues. This phase could last up to 18 months, during which time a "contact group" or "Contact Committee", is formed, consisting of the review team and

a small group of agency staff, in order to facilitate the dialogue between the two bodies. According to Berggren, the Bureau considers this group as a channel of communication to keep the agency management up to date on the progress of the audit and the observations of the auditors as the audit work proceeds.¹⁷

Effectiveness auditing can be divided into three stages "firstly, the goals of an agency must be elucidated. Secondly, the activity of the agency must be examined. And thirdly, the agency's system of control needs to be examined".¹⁸ The Swedish approach takes the policy of programmes as the starting point of the in-depth analysis and focuses on the expected benefits of those policies

"The auditors were to utilize the goals set up by the politicians as the point of departure for an assessment of the degree of goal fulfilment in the activities of government agencies"¹⁹

Then NAB considers the total system which makes up a public programme. According to Ingér Rydén the underlying idea of effectiveness auditing, in this phase, is to note the two fundamental issues behind most NAB analyses:

- "- does the tax-payer get good value for money?.
- do agencies handle their task and resources in a rational and responsive way"²⁰

Consequently the work on the efficiency and effectiveness of the agency is primarily concerned with accounting, planning, budgeting and results analysis,²¹ it also includes:

- 1 - The evaluation of the agency's performance as compared with its aims.
- 2 - "The examination of the agency's information

and control system, its organization and its other administrative ancillary functions. Included under this heading are the auditing of short-range and medium-range planning, budgeting, and the routine and annual monitoring of costs, performance and effects".²²

- 3 - The "audit of operations which embraces the review of the actual production, including among other things the way in which the agency applies its resources and what productivity development its activity exhibits".²³

The audit techniques followed by the Swedish audit team during this stage consist of quantitative analysis based on large data bases, i.e. questionnaires, while in other cases field observation techniques are used, such as sending a group of auditors to Southern Sweden to watch a large scale military manoeuvre.²⁴

Furthermore, the NAB audit team undertakes interviews of strategic persons i.e top management of the agency concerned and people with special skills and knowledge in the field under review as an audit technique. Having completed his process of collecting data and assessing the overall performance of the agency or the activity selected, the auditor produces a critical analysis of the central agency and set of recommended measures that the agency should consider.

Outcome of the project and reporting phase:

Berggren recommends that during the early stages of auditing and before starting the in-depth analysis review phase, the auditor should communicate his audit findings from the preliminary phase orally with the management for the purpose of stimulating argument and to get management agreement on the key issues which will be reviewed during

the final stages. Furthermore, according to Berggren, the auditor, during the final stages of the audit assignment, should put his preliminary findings before the contact group. Once these findings are thoroughly discussed, the actual auditing project is concluded by issuing an audit report. This report contains the conclusions of the audit project, which may be:

- "- an appraisal of the current state in the audited area, this includes identification of structural factors that impede the attainment of objectives, analysis of various indicators of effectiveness, incidence of costs and pattern in resource use.
- a set of recommendations, mainly oriented towards a central agency but to some extent directed towards the government level".²⁵

The Bureau in its recommendations may:

- call for changed behaviour at the agency Level.
- point to the need for an overall change in the agency's role and its internal allocation of efforts between different tasks.
- recommend that the agency should adopt better practices, such as more advanced planning, more explicit evaluation etc.
- recommend an improvement in "vertical" interrelationships within the policy area i.e the agency should delegate some powers to regional and lower level management within the agency.
- specifically recommend that a set of regulations should be simplified or that the composition of a state grant system should be changed.²⁶

In short NAB's audit report presents the Bureau's overall assessment of the agency's activities

in achieving its policy goals. It identifies the major problems and suggests proper remedial action to be taken by the agency concerned. These audit reports rarely highlight "possibilities for savings in the short run. Instead, we [NAB officials] hope that our proposals and our analysis will, if accepted and acted upon, lead to a greater degree of cost-effectiveness in the long run".²⁷ The Swedish philosophical approach in this regard is that:

"it is more natural to ask how to get the most out of given resources rather than to fix a certain level of performance and then see if the resource input may be decreased. And when deficiencies in performance are discovered, the reaction has been rather to require more resources".²⁸

For the following reasons, it could be concluded that, the results of effectiveness auditing in Sweden are reported once these audit projects are completed:

- 1 - Each effectiveness audit project takes a long time to be completed " Projects take time. The period between the very first idea of an audit and the completion of a report may be up to two years".²⁹
- 2 - The number of projects undertaken each year is high, "the Bureau is running approximately eighty effectiveness audit projects in any year".³⁰
- 3 - The results of these EA projects do not appear within the annual report of the Bureau. In early autumn of the year, "the Bureau issues an annual report covering the post financial year, which in Sweden ends on June 30, This document only gives an account of the bureau's activities during the year, it does not contain any concerted analysis as to the state of effectiveness in the national administration".³¹

The purpose of the audit report is four-fold:

- 1 - To supply Parliament and the government with an analysis of the state of affairs in the activity audited in order to enable officials to pass

judgement on those activities and set priorities for the future.

- 2 - To provide the decision-makers of the agencies in general, and those audited in particular, with practical ideas on how they could improve their activities and promote effectiveness within their organisation. ³²
- 3 - To serve as a channel of communication during the audit assignment.
- 4 - To gain publicity, (according to Richardson and Kindblad) and to put pressure on agencies to respond to NAB criticism. ³³

The recipients of the NAB audit reports are:

1. The agency or agencies concerned, i.e. the audited agency and the agency's sponsoring Ministry.
2. The government
3. Parliament
4. The mass media
5. The public at large

The Bureau's report is a public document available to anyone. This keeps the public informed as to the state of affairs in national administration and as to changes needed. ³⁴

It is common procedure to have media coverage for the Bureau's report after publication. The Swedish experience shows that the mass media are alert to disseminating the criticism of the audited agencies presented in the reports, but they are less diligent in including the positive responses made by the agencies and the remedial steps that already may have been taken to eliminate problems. Therefore, the double-edged sword of

publicity could, in the short-run, put the audited agencies on the defensive, thereby impeding the work of improvement and prejudicing the results of future audits; and in the long-run this same publicity has the effect of presenting an image of the Bureau as constantly criticising everything. Because of this, the reports may receive inadequate attention, regardless of whatever justification lies behind them.

To overcome this situation of unjustified media criticism of an audited agency, the Bureau issues a press release on every audit report. In this press release, the Bureau emphasises the positive response which the recommendations may have elicited from an audited agency.³⁵

Follow Up Phase

NAB has no legal power to dictate or enforce its findings, therefore, it is up to the agency concerned either to reject or to act upon the Bureau's recommendations. According to Richardson and Kindblad the agencies are required, within six months of publishing the audit report, to report back to the Bureau on the steps which the agency has taken or intends to take in response to the Bureau's recommendations.³⁶ The Bureau's task does not end at this point, it has the right to return to the agency concerned and conduct a further audit, after which it may publish its findings showing that the agency has or has not responded to the Bureau's previous audit findings.³⁷ In cases where essential parts of NAB's conclusions are rejected the Bureau is empowered to submit its report to the government for

consideration. In practice this step is rarely applied "out of about 300 reports, the Bureau has addressed only a few to the government over the last three years".³⁸

In short NAB depends on the officials of the agency concerned, the sponsoring Ministry, the Budget Ministry and the media to ensure that its findings receive adequate attention.

In order to overcome the handicap of its lack of authority and power to enforce its findings, the Bureau has adopted the policy of convincing through arguments and well-founded recommendations as a means of bringing about the intended changes.

Effectiveness of The Bureau

Despite the lack of statutory backing and the absence of political will, the difficulties in establishing a direct link between changes in the audited agencies and NAB audits, the defensive attitude of agencies, and the lack of motivation within agencies, which to some extent hinders the overall effectiveness of the Bureau, NAB has succeeded in ³⁹

1. diffusing ideas of good management.
2. influencing the policy-making agenda within agencies
3. establishing itself as an authoritative voice, in the field of policy making, which will be listened to by all parties i.e. commissions, government and parliament, on any proposal in the policy area.
4. providing an independent perspective,⁴⁰ and
5. holding agencies accountable for their activities.⁴¹

On the other hand, without a good relationship with the audited agencies, or the high quality of audit work, or pressure from media and the public, NAB's audit findings and reports would amount to nothing. In debating and deliberating the Bureau's report as a factor influencing the Bureau's effectiveness, it was found that "Neither the Government nor the Parliament of Sweden [are] in any way obliged to deliberate on the Bureau's reports, that means these audit reports can be filed without comment".⁴² Finally, the experience accumulated from ten years of effectiveness auditing in Sweden is mainly concerned with economy and efficiency.⁴³

I. United States of America

The information in the following section is mainly based on the internal documents produced and supplied directly by the General Accounting Office [GAO] and also on an interview with Larry Hoover, Robert Coffman, Issam Herel [members] and Louis W. Hunter, the project Director of the "United States, Saudi Arabian Joint Commission on Economic Cooperation Audit Project".

According to GAO officials the Office is an arm of congress which reviews the programmes, projects, policies and activities of the Federal Government and makes recommendations for improvements. In addition, the Office is considered to be part of the Legislative branch.⁴⁴

Historical Development of OA in the USA:⁴⁵

GAO was established as a separate entity when the Budget and Accounting Act became effective on July 1, 1921. the Act states that the GAO is an agency 'independent of the executive departments' which shall review, control and audit government accounts, and shall report on operations throughout the Federal Government.

During the period 1921 - 31 GAO's activities concentrated primarily on making 'centralized voucher audits and rendering decisions on the legality of the disbursement of federal funds'. In the period 1940 - 54 two laws were promulgated. The first empowered the Office to audit Government Corporations annually using commercial audit techniques. The second, The Budget and Accounting Procedures Act of 1950, authorized the Office not only to review federal agency accounting procedures and controls but also to prescribe accounting principles and standards to be observed by each executive agency. Out of these changes grew the Office's interest in developing a comprehensive audit which became a substitute for voucher checking. More emphasis was placed on economy and efficiency in the application of funds, with less stress put on the strict legality of individual payments. Consequently the GAO encouraged Federal agencies to perform some of its traditional work. Financial management, internal audit, and many of the routine functions the GAO used to do are considered a primary responsibility of the agencies themselves.

Since 1966, the GAO has directed much of its

attention towards management audits or audits aimed at evaluating programme results. Two significant events set the stage for this evolution. The "first, the Holifield hearings of 1965 precipitated a major change in GAO approach to review defence contracting procedures. Second, the emergence of the Great Society programs expanded the Federal role beyond such traditional programs as building highways and meeting payrolls to amelioration problems of the Nation's poor by providing health, educational, welfare, and social benefits".⁴⁶

Congress passed the Legislative and Reorganization Act of 1970 in which the Comptroller General is specifically required to review and analyze the results of government programmes and activities, and to make Cost/Benefit studies. In 1972, the Comptroller General of the USA introduced the standards of audit, which according to GAO publications, are applicable to all levels of government in the USA. Congress further strengthened the GAO programme evaluation responsibilities in 1974 by requiring the GAO to assist congressional Committees in developing statements of legislative objectives and goals and in analyzing and assessing federal agencies programmes.

Nowadays, the GAO focuses exclusively on efficiency and effectiveness [programme results audit] and has abandoned its role as financial and compliance auditor.⁴⁷

GAO Audit Approach:

The US approach is, to a large extent, similar to the theoretical approach described in the last section

of chapter four. The US comprehensive audit review includes such steps as:

- "1. studying the relevant Laws and pertinent Legislative history,
2. reviewing agency policies, procedures and practices,
3. evaluating the effectiveness of applying public funds
4. verifying individual transactions" ⁴⁸
5. Reporting all important deficiencies encountered during such audits.

(This process requires the GAO to fully explore, develop and report with recommendations for corrective action).

6. Following-up the steps taken towards implementation of the GAO recommendations.

With regard to the reporting and follow-up stages three points need to be clarified. Firstly, many audit projects of non-financial activities take some time to complete, which affects the use to which the information can be put. "The longer an assignment takes to complete, the more difficult it is to ensure its usefulness in the decision process".⁴⁹ Therefore, the GAO adopted the system of interim audit reporting, submitting "the results of each audit as it was completed, rather than in an annual report as contemplated in the 1921 Act",⁵⁰ as a means of providing the decision-makers, such as Congress, with timely information. Secondly, as Hunter states, there was tremendous resistance to operational auditing from the beginning. "It took us [GAO officials] almost 15 years to get acceptance to operational auditing findings". The decision was taken to concentrate on

producing reports with a limited number of "well-balanced, well documented and soundly conceived" findings, operating on "a different level by a different method" from those with more numerous and perhaps politically unacceptable findings in each report. This had the effect of diluting the report and of setting up a "natural reaction or barrier" between the GAO and the agencies involved. Larry Hoover, a member in the audit project, agrees that "In the early days in the USA we [GAO officials] had the problem of producing so many findings". Hoover continues:

"we generally settled on the concept that it would be much more effective if we had 3 real [ly] good, solid points in our report versus 15, of which maybe 7 were not so good".

The GAO found that the smaller, weaker points would adversely affect the acceptance of the whole report and therefore settled that these should be dealt with orally "at a lower level and in a more relaxed atmosphere" in departments concerned.

What could be concluded from these quotations is that:-

1. The report must be well documented and fully supported by facts and solid evidence.
2. The more concentrated audit report, with fewer points, is the more acceptable and consequently the more precise the findings the easier they are to correct and adopt.
3. Larger audit findings should be communicated in writing to top officials, while smaller ones should be handled informally and orally at lower levels.

4. Finally, good personal relations and solid audit findings, supported by sound evidence, are two factors working to overcome any barrier between the auditor and the audited agency.

The last point is that GAO has no authority or power to impose its findings on the audited agencies. Section 236 of the Legislative Review Reorganization Act of 1970, requires that all government agencies must report to Congress within 60 days of receiving the GAO audit report. In these reports, the agency states the action which it intends to take on the GAO reports, while GAO has the right to go back and check on the accuracy of the agency's report.

Promeranze and others describe the US approach in the form of the following series of questions to be asked by the auditor.

- "1. Does the activity have clearly defined objectives? If not, develop them.
2. Have quantified and measurable criteria been indentified?. If not, the entity must identify measurement criteria for justifying effectiveness.
3. Were the measurement criteria relevant and valid? If not, develop new criteria.
4. Has data been accumulated for measurement against identified criteria? If not accumulate such data on resources and results achieved".⁵¹

According to Tomkins, the US approach is "a top-down approach" in which both the structures and process of an effective measurement system are reviewed. GAO does not always perform an in-depth review but when it does its investigation is on an ad hoc basis. The decision to

undertake such an in-depth investigation of an activity or agency depends on factors such as the agency's:

- "1. use ... of standards or goals for judging the accomplishment, productivity, efficiency or use of goods or services.
2. Lack of clarity in written instructions which may result in misunderstandings, inconsistent applications, unacceptable deviations in what was wanted and the like.
3. Capabilities of personnel to perform their assignments.
4. Failures to accept responsibility.
5. Duplication of effort.
6. Improper or wasteful use of funds.
7. Cumbersome or extravagant organizational patterns.
8. Ineffective or wasteful use of employees and physical resources.
9. Work backlogs."⁵²

In deciding which audit to perform, the GAO emphasises federal programmes and agency operations in which

- (1) Strong present or potential Congressional interest exists,
- (2) There are programmes or issues of great National interest, and
- (3) There are programmes with major opportunities for improvements and dollar savings.⁵³

The right to request or initiate an OA review is given to:

1. House of Congress.
2. The GAO itself.
3. Any Committee of the House of Representatives or the Senate,
4. Any joint Committee of the two houses having jurisdiction over such programmes and activities.⁵⁴

For example in 1981 "one third of GAO's work was in response to specific requests from the Congress, Congressional Committees and individual members",⁵⁵ this leads the discussion to the GAO's role in providing the legislature branch of the government with the information analysis it requires. Service provided by the GAO to Congress and its members include:

- "- studies specifically mandated by statute;
- audits and evaluations of federal programs and activities required by Committees and members,
- assignment of staff to Committees;
- testimony at hearings;
- advice on pending Legislative,
- accounting, auditing, and advisory services for House and Senate financial and administrative operations, and
- identifying and responding to Congressional information needs across the whole spectrum of federal programs and activities".⁵⁶

In the US, the Congress and its members are the main audit recipients as the following example illustrates; "GAO issued in fiscal year 1980, 55 reports concerning General Procurement issues. Recipients of those reports were as follows:

The Congress	9	
Congressional Committee	10	
Congressional members	12	
Departments/Agencies	13	
Local Agencies	11	

"Total	55	reports ⁵⁷
	=====	

Functions and Responsibilities of GAO

The GAO's functions and responsibilities are:

1. To make independent reviews of the financial systems of federal government agencies [but not attesting to the financial statements of the government itself.]
2. To review the efficiency of management's use of resources and effectiveness of programmes in achieving the objectives intended by Congress.
3. To audit government corporations, and
4. To prescribe accounting and auditing principles and standards for all federal agencies.
5. To make directions for the executive departments regarding the principles, forms, standards and system of accounting.
6. To render legal opinions, furnish legal advice and to settle claims made by and against the US.
7. To provide advice and assistance, on request, to members of Congress and Congressional Committees.⁵⁸

The GAO, in meeting its responsibilities, is assisted by a multidisciplinary professional staff. For example, in 1979 the GAO had 4067 professional staff, [compared to 1700 in 1921 and 5500 in 1980], of whom 1874 were accountants/auditors, 1626 management specialists of various sorts and 567 other professional staff consisting of engineers, economists, military experts, management consultants, mathematicians, political scientists and other disciplines.⁵⁹

The Effectiveness of GAO Review

The effectiveness of the GAO audit investigation can be, to some extent, illustrated by the following

quotation:

"During fiscal year 1980, as a results of its audits, GAO had identified savings to the government and taxpayers of \$3.7 billion. Savings from management improvements, which cannot be accurately measured in terms of Dollars, also resulted. In comparison, GAO's expenses in 1980 were about \$197.3 million".⁶⁰

Services rendered by the GAO to the Congress and its members and Committees could be used as another indicator for assessing the effectiveness of the GAO audit review.

Similarities and Differences Between the US and Swedish Approaches:

Both countries share:

1. The general structure of the effectiveness audit models.
2. The fact that the performance of the traditional financial audit has ceased, or almost ceased, in both countries, leaving the audit institutions in a better position to allocate more of their resources and to direct more of their efforts towards performing auditing of non-financial activities.
3. An auditing system which puts great emphasis on meeting the information needs of the decisions-makers, especially the Legislative branch of the government. (As has been mentioned previously. The "Parliament Auditor" exists in Sweden for the same purpose, while in the US Act of 1970 is clear in stating who has the right to request or initiate OA type of audit), and
4. The prerogative to review the policy objectives of the government agencies and programmes through SNAB and GAO although they differ in approach in

fulfilling their role in this area. The GAO selecting an agency-by-agency approach, while the SNAB goes for the system-based review. This point can be justified in the context of the power and support given to the audit institution in each country, which shall be explained next.

The key differences in the system of both countries, [US and Sweden] are:

1. Although the Swedish audit institution is directly located, [through the Ministry of Budget], in the executive branch of the government, it receives nominal or no support at all from either the executive or legislative branches of the government. The GAO, located within the legislative branch, consequently enjoys the support of this branch. This gives the GAO the upper hand, to some extent, in implementing its findings compared to SNAB's situation.
2. The concept of independence in the US approach is translated as freedom from any pressures which could be put on the audit institution by the executive branch of the government. The same concept in Sweden, however, means freedom from pressures exerted by individual government agencies and not the government ministries themselves.
3. The GAO has developed a standard applicable to this type of audit and its review in this area is governed by that standard, while SNAB has developed only financial audit standards.

4. The role of GAO is much broader than that played by SNAB. The GAO is responsible for, among other things, developing standards, reporting on proposals for new legislation and assisting the decision-makers in various ways.
5. The US Act is precise in determining the sort of examination to be performed by their audit institution. For example, the Act of 1970, clearly mentions cost/benefit analysis, which implies that the data required for the GAO examination is more broadly-based than that needed under the Swedish approach.
6. The SNAB depends on the media to put pressure on government agencies to take positive corrective action, while there is less emphasis, in the US approach on the media; instead the GAO depends on the Congress as a means of achieving this end.
7. The SNAB audit reports are public documents, receiving media coverage, and are available to all interested readers, while the circulation and distribution of the GAO's report is limited to interested parties who have made a special request to the GAO itself.

The next chapter will present the results of the overall comparison of the audit approaches of the four countries selected by this research.

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CHAPTER SEVEN

SOME COMPARATIVE EXPERIENCE

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Introduction

Overall Comparison

Characters Common to all Four Audit
Institutions

Differences in the Audit Institutions

Underlying cause of the Differences in the Audit
Institutions

The System of Government

Public Expectations and Intentions Prior to
the Introduction of OA Review

Legitimacy of the Government Activities

Reasons to Concentrate the Fieldwork on the UK
Local and Health Authorities

CHAPTER SEVEN

Some Comparative Experience

In the previous two chapters, the researcher examined four different approaches to performing operational auditing, (The British and Canadian approaches were reviewed in one chapter while those of Sweden and America were examined in the other). At the end of each chapter a brief comparison was made of the differences and similarities between each pair of countries. This has been done in order to achieve one of the stated objectives of this research project, namely "to study the basic differences in the purpose and scope of government auditing system of the selected four countries" (The UK, Canada, Sweden and the USA), and thereafter to identify those factors contributing to such differences.

This chapter will fall into two sections the first is designed to present an overall comparison of the approaches of the four selected countries, while the other presents the key factors for their differences in audit practices.

An Overall Comparison

In this section a comparison shall be made of the audit systems in the four selected countries, USA, Sweden, Canada and the UK.

Although the audit institutions [NAO, GAO, SNAB and

the OAG] have some points in common, they still differ in many respects. Points common to all four audit institutions shall be discussed first and will be followed by a discussion of the points which differ in practice from one audit institution to another.

Firstly, similarities in the audit institutions:

To a large extent, each of the four approaches, shows a high degree of similarity, not only in the degree of importance put on prior planning but also in the steps taken in conducting OA review. All agree on the importance of auditing of non-financial activities and completely reject the idea of standardization of OA review on the ground of its limited usefulness, preferring, instead, that their audit investigations should be tailor-made to fit the situation or activity under review, [see chapter five on Canadian approach for the reason given in this regard.]

Secondly, differences in the audit Institutions:

I Recruitment Policy of the audit institutions:

The audit institutions of the UK and Canada depend heavily on recruitment of the necessary specialised skills through secondment. The Swedish and American audit institutions are assisted in their reviews by their multi-disciplinary professional staff. The UK recruitment policy is unique in that the responsibility for auditing local government authorities and some health authorities is allocated to private auditing firms. Because of the difference between the private and public sector and the absence of profit indicators as a performance measurement criterion the researcher believes that the allocation of

any audit responsibility to private auditing firms should be carefully and thoroughly examined prior to its implementation.

II Setting Standards and The Role of The Audit Institutions:

The activities of the US GAO and, to a lesser extent, the Swedish NAB are not merely confined to the audit review but they also extend to the prescribing of principles and standards for accounting in the areas and agencies subject to the NAB's and GAO's audit investigation. The Canadian and British audit institutions do not go this far.

Only the US, of the four countries, has special standards for OA reviews. This should not lead one to conclude that standards are not necessary; on the contrary standards as "a test or measure for ... qualities or for the required degree of excellence"¹ are important for both the auditor and the audited agencies; "Any kind of state audit must develop or collect, as best it can, a set of standards, a 'doctrine', upon which to base its work."² For the audited agencies; the standard is a yardstick by which these agencies can measure the quality and effectiveness of their auditors and consequently can assess the quality of the audit review itself.

For the auditor, the standard determines the auditor's responsibilities and duties, and also gives the auditor a clear indication of what he is expected to do for the interested parties including the audited agency.

III The traditional financial and regularity audit and OA review:

The main theme of the discussion in the previous chapters might lead us to conclude that FA is becoming less important now than at any time before. Sweden and the USA are two countries which have ceased, or virtually ceased, performing this type of audit while they direct their resources to OA review. It is believed that FA reports when they, "contained little but isolated matter of 'regularity' they were of minor interest except to persons directly concerned with budgetary control".³ This rather suggests that FA is of limited use, serving the limited objective of legislative accountability and certifying the financial and arithmetical accuracy of government transactions. As such, the need for this type of audit has lessened, (for a full description of FA shortfalls and objectives see chapters one and three, respectively). The advantage of ceasing to perform this type of audit is that the audit institutions can now devote sufficient resources to carrying out other important tasks expected of them by Parliament

"Other national audit offices in advanced countries do not have the scale of financial and regularity audit work that we [C&AG] have in the UK, and they are much freer to concentrate their resources on economy, efficiency and effectiveness examinations".⁴

The audit institutions of Canada and the UK perform traditional audits alongside audits of non-financial activities Sir Douglas Henley states that he does not

"Personally believe that would be right or accepted in the UK. I [Sir Henley] think that Parliament will continue, to require a measure of assurance from the external auditor

on the discharge by departments of their statutory and constitutional responsibilities, not to mention the efficiency of their control systems designed specially for that purpose". 5 .

Richard Brown, who worked as a consultant to the GAO, shares Henley's beliefs and adds that

"While state legislators are very interested in performance auditing and indeed, are demanding such audits more than ever, it appears they are interested in performance auditing as an add-on to basic financial audit work and not as a substitute for it. They seem far more concerned over auditing and assessing past performance than in using auditors to try to read the future." 6

The audit institutions in Canada and the UK; OAG and NAO respectively, carry out a financial and regularity review as part of their normal traditional duties; however their audit approach, in recent years, has been changed to a system based review of the entire financial management of the audited agency. In addition, these audit institutions use sampling techniques rather than review every individual voucher or transaction.

The researcher raises a point against the Swedish and American auditing systems for neglecting one of the main purposes of establishing any audit institution; that of ensuring that government agencies are adhering to the conditions attached to each approved operation or programme.

It is correct, according to Normanton, that when government grows in size and complexity financial audit becomes of limited use. However, there is no better and effective method of confirming the compliance and adherence to the conditions attached to the budget than

by systematic review of the financial vouchers, systems, accounts, files and records.

In conclusion, it could be noted that the task of auditing of non-financial activities in the selected countries is well established and flourishing. However, the Kuwaiti situation is completely different as KAB is mainly concerned with discovering the tricks and devices used by executives for avoiding the budgetary controls. Furthermore, its activities are limited to performing traditional financial auditing, as has been fully described in Chapter (3).

It may be concluded from the Canadian and British approaches that OA review is not, completely different from, nor a substitute for those investigations and studies carried out by internal staff or specialized units within the audited agencies. In many cases the external review complements the internal ones. With regard to USA and Sweden, their position either is not clear, as in Sweden, or considered as something completely different and new from those reviews performed by the internal staff of the audited agency.

IV OA review and the Co-operation of the agency audited and its top officials:

This shall be discussed from two different points of view, and these are:

Firstly, Co-operation with top management and top officials:

Gaining the co-operation and support of the management of the audited agency is an essential matter for the success of the OA project. Top management along

with the top officials i.e. members of the Parliament who will consider and implement the auditor's findings are essential because without their support the OA review will be "an empty shell".

Although the Swedish Bureau has been provided with so many tools for enforcing its audit findings, the researcher feels that this Bureau receives less support from the legislature and executive branches of its government than audit institutions of the other three countries. The GAO has the full backing of Congress, while the NAO and OAG receive backing from the Public Accounts Committee. However it should not be supposed that the SNAB is the less effective, because the Bureau is very active in holding government agencies accountable for their actions and activities.

Secondly, Co-operation with internal staff:

By comparing the different systems mentioned in the previous chapters, it can be seen that the Canadian audit approach co-operates most with the internal staff while the UK approach puts less emphasis on this type of co-operation. At the other extreme is the American audit approach which completely minimizes the importance of the role of internal staff i.e. GAO looks upon the internal staff as a source of information, having no other role in performing the OA reviews. The Swedish approach pays slightly more attention to this type of co-operation but the emphasis could still be considered as fairly minimal.

To substantiate this opinion, with regard to the US and Sweden, the audited agencies find the GAO audit team

on their "Front-Door" without any prior notice. This lack of prior notice is a consequence of the way in which the system operates. The GAO is requested by Congress to perform an audit and must act on this request immediately.

Sweden initiates a direct dialogue with the audited agencies and the government, with the purpose of preparing the annual audit plans to be incorporated later in the government bill, but the literature shows no evidence of any type of co-operation with the internal staff during the execution stage of the audit plan.

It could be expected that increased awareness of top management and staff due to this co-operation would result in management and decision-makers more readily accepting the findings of the OA review.

V OA review and the auditor's state of independence:

The issue of independence could be discussed from many different angles such as:

- (1) Who appoints, promotes and removes the auditor from office?
- (2) From where is the auditor general drawn? and what was his previous career?.
- (3) Who finances the audit projects?
- (4) Where should the audit institution be located? Within the executive branch, or legislative branch or should it be completely independent, (standing on its own)? and
- (5) what is the position of the audit institutions and the government auditors regarding requests made by government or members of parliament?

The researcher believes that the first question has little or no effect on the OA review, but the selection of the auditor should not be restricted to those with a degree and experience in law, as is the case in Kuwait, nor should it be limited to those who worked or did work with the Treasury, as in the UK. Of course it is important for the auditor general to have a legal background and to have experience in the Treasury but the individual or authority responsible for the selection should consider other areas of specialization and not restrict the scope of selection to a certain type of profession. The Canadians give a good example in the unrestricted scope for selecting the auditor general or president of the audit institution.

The financing of audit activities in the selected countries comes from the government, either directly, through an independent budget of the audit institution, or indirectly, through one of the ministry's budgets as in the case of Sweden. But what is worth considering and thoroughly investigating is the existing system of financing the audits of Local authorities in the UK.

A. The location of the audit institution:

The different institutions of the selected countries show significant variances in their relation with the government or parliament of their countries.

It is useful to present the following two quotes before proceeding with the discussion and before making any final assessment of the state of independence of the individual audit institutions, which is investigated in

this chapter.

According to Normanton, in order for the government or public auditor to be independent he

".... should be free from direction, influence and intimidation by, and income and reward from, the authorities and persons whose affairs they are [he is] called upon to audit"⁷

In addition, independence can be described as an

"attitude of mind which does not allow the view points of its possessor to become reliant on or subordinate to the influence and pressures of conflicting interests".⁸

Consequently, it is believed that all the countries researched in this chapter enjoy actual independence, although they differ in the appearance of that independence. Accordingly the four countries could be divided into three different groups.

The first group comprises Canada and the UK. The audit institution of these countries clearly show that they enjoy complete freedom in taking decisions and in performing their duties, and are completely detached from both Government and Parliament. Other countries with similar systems includes Australia, the Federal Republic of Germany, France and Japan.

The second group is represented in this research, by the US, where the GAO is located within the legislative branch of the government. This situation might suggest that the GAO lacks independence, but in fact this is not the case. The Austrian Court of Audit, the Kuwaiti Audit Bureau and Egyptian Central Accounting Office are examples of the audit institution not only reporting to, but also being located within, the legislative branch of

the government. To illustrate, the Austrian Court of Audit is responsible to the nine Provincial Parliaments where its audits review involves matter concerning the provinces and the court is responsible to the National Assembly in all other cases.

The third group, Sweden, has the audit institution located within the executive branch of the government. The SNAB is the only such case covered in this research project. As has been mentioned earlier, the researcher believes that SNAB enjoys full independence although the appearance of this independence may be a matter of dispute. In order that the SNAB's independence may be better understood, the organisation of the Swedish administration should be considered, while keeping in mind the above-mentioned quotes. Briefly, the Swedish system of government consists of Parliament as the legislative branch, and ministries and government agencies as the executive branch of the government. Unlike the government systems existing in most countries, the ministries in Sweden are small organisations mainly concerned with policy setting while the government agencies are large organisations with the responsibility of interpreting and realizing government policies. The government agencies enjoy a high degree of autonomy [for further details see "Programme Evaluation in Sweden: The changing policy style" by J.J. Richardson and Britt-marie Kindblad]. The Kuwaiti Audit Bureau, in certain circumstances, could be included within this group at times when the National Assembly is either suspended or

it is in along recess. In these cases the KAB shall be attached temporarily to the Office of the President of the Council of Ministers.⁹

According to Normanton,

"in a Parliamentary democracy society is represented by legislative, and the whole of the executive assumes the aspects of a corporate body. The state auditor may serve the legislative or he may stand alone, what he absolutely cannot do is to be a servant of the executive, except in minor incidents. To do so would be to become an internal auditor and thus to accept a drastic lowering of his constitutional standing".¹⁰

There is, in fact, another group but it is not represented by any of the countries selected for this research project. The audit institutions of the countries within this group are attached to the office of the Head of State and consequently report directly to him, for example, in the Kingdom of Saudi Arabia, the General Auditing Bureau is attached to the Office of the King and the President of the Bureau reports to and is held accountable directly to the King as the Head of State and not as the head of the Government.

B. OA review and the legislatives' requests:

Based on the above review it is very difficult to form a uniform approach or system for handling the Legislator's requests. In the US, for example, Congressmen and Congressional Committees are completely authorised to make requests for OA review, while members of the British Parliament are required to channel their requests through PAC. This means that the UK system is better controlled and more effectively organised than the American system. The Swedish case is unique, because such

requests are received and acted upon by an organisation separate from SNAB.

The audit institutions acting positively on the Legislator's requests has led some to question the auditor's integrity and role;

"The GAO is in danger of becoming a 'Think tank' for the Congress-doing much work which is similar to that conducted by consulting houses, the Legislative Reference Service, and the Congressional Budget Office- and not an audit organization at all".¹¹

The researcher agrees that the auditor's independence may appear to be harmed but when the auditor's integrity is considered within the context of the above-quotes there should be no such misunderstanding. Furthermore, the researcher feels that receiving requests has only a limited affect on the auditor's integrity as long as the auditor is completely free to plan his review, to set the timing for his investigation, to realize his audit plans, and to decide, without any external pressures, on the issues which he thinks are appropriate. The auditor is at liberty to include or exclude, in his report, any of the findings his review uncovers.

In the State of Kuwait either the Kuwaiti National Assembly or the Government may instruct the Bureau to audit a particular government project or activity. Under these circumstances the Bureau reports to the authority which requested the audit to be undertaken in the first place. It is believed that this subject should not only be discussed from the point of view of independence but also should be considered within the expected role of the

auditor and the aims of such investigations. In other words, if the auditor's role is to be a "watch-dog" then independence is of prime importance, and consequently the auditor could be highly independent, but if the auditor is considered to be the "Arm of the legislature" and if the OA review is aimed at strengthening the accountability relationship by responding positively to the information needed by the Parliament and its members, then lesser degree of independence is necessary.

The right degree of state of independence depends on other factors such as the political environment, government organisation and the tradition of the country and therefore a balance between all these factors should be struck.

Finally, before granting parliament, its members or committees, the right to request OA reviews, it should be remembered by the members of Parliament that these requests will create a demand for more funds to be allocated to the audit review. The researcher believes that the UK and Swedish system are more acceptable in this area than the US system from the point of view of striking a balance between the auditor's role, audit aims and the auditor's independence.

Reviewing and discussing independence, in this research, is not an end in itself but is a means for assessing the effectiveness of the audit review. Accordingly, the audit institutions reviewed in this research project have been considered as highly effective, but it is very difficult, if not impossible,

to rank these countries objectively because of the lack of solid evidence.

VI Prior Planning:

In discussing prior planning the researcher means not only the ways in which the audits are planned ahead but also whether the audited agencies are informed of these plans. The SNAB has the most advanced system in this area, with the Canadian system coming a close second because of their cyclical approach. The US approach comes in last position of the countries considered in this research while the UK approach is very difficult to determine because of the absence of evidence.

Prior planning, within the context defined above, could be considered as a means for stimulating the agencies to co-ordinate and co-operate with the audit institution, which could lead to more chance of a successful completion of the OA review.

VII OA review and the system of investigation:

In Canada and UK the audit review is based on a system review rather than an agency-by-agency review, while Sweden has now shifted from an agency-by-agency to a system based review. The US is the only country of the four which still bases its review on an agency-by-agency or programme-by-programme review. This may indicate that the system based review is better than the agency-by-agency review. Furthermore, it is believed that, where the audit institution has no prerogative either to perform OA review or to enforce its audits' findings on the audited agencies, a system-based review

is the best available base to reduce the defensive attitude of the audited agencies and maximize the return or benefits to be received by the audited organisations. In other cases such as, for the purpose of cost cutting, [it seems logical that auditing two different organisations will be more expensive than reviewing only one of the two], producing punctual reports, especially where limited planning skills are available, or where only a short time is allowed for the audit review, responding to request made by a member of Parliament or by one of its Committees an agency-by-agency approach, approved to be more suitable.

Finally, the audit institutions should be in position to select the appropriate base for thier audit review and should understand the pros and cons of each type of base.

VIII Scope of the OA review:

The enabling acts of Sweden, Canada and the US permit their audit institutions to carry out OA review on nationalised industries and state-owned companies. In the UK the right to audit these industries is given to the "Monopolies and Mergers Commission". The Commission carries out OA investigation when it is detected by the Treasury, and reports its findings to that body. It is believed that the UK approach would be more effective if the Commission was given a more systematic role, more freedom to conduct VFM audit review regularly and to report to Parliament or to one of its committees.

Because of the nature of the activities of these industries, the specialized skill needed to review them

and the need to give them adequate and regular attention, the researcher believes that with regard to the UK system the above-mentioned suggestions are worth careful and thorough consideration.

IX - OA review approach and its long-term effects:

The UK and Canadian approaches do pay attention to and encourage the internal specialized units to share the responsibility for undertaking an OA review. These units are held responsible, through their managements for performing this type of audit. The role of the external auditor is to assist the units and to ensure that they perform properly and that the reported results are "true and fair". The external auditor also confirms that the management of the agency carried out its responsibility according to the plans.

These approaches mean that concern and awareness is created internally and management is inclined to monitor the economy, efficiency and effectiveness of their activities on a regular basis rather than have them attract ad hoc attention.

The US and Swedish cases are completely different in that the external auditors perform the whole review. Their reviews are on a "one-off" basis consequently this type of review creates a temporary awareness rather than a permanent one with long-term effects.

X - Reporting systems of the audit institutions:

Each enabling act of the four selected countries permits the audit institutions to submit their reports at any time of the year, especially if these are related to

urgent matters which the audit institution thinks should not be deferred. However the UK NAO prefers to submit its report on its VFM audit activities for a given year along with its annual report at the end of that year. On the other hand, the US GAO finds that

"A single report containing details of all the more important observations would be extremely cumbersome [and desires] to keep the Legislature and its Committees continuously supplied with information, and not merely at one season of the year. This it [is] achieves [ed] by submitting numerous audit reports every year to the appropriate Committees as soon as each one becomes available".¹²

Sweden and Canada take a similar line to the US.

Neither the UK approach nor the approaches of the other three countries are free from criticism. It has been stated earlier in this study that any OA project might take up to two years to be concluded, which suggests that the UK approach might not be appropriate or effective in meeting the decision-makers need to have on time "LIVE" information. On the other hand, the other approaches might cause work-flow problems for the legislature which consequently could result in some audit reports not receiving enough attention or even being disregarded altogether. Therefore, for the purpose of increasing the effectiveness of audit reports the researcher believes, that the audit institution should report, the result of OA review separately at agreed time intervals, perhaps twice a year, once every 3 months or whatever, apart from those cases which are urgent. By doing this the auditor ensures that his audit report will receive appropriate time and resources spent on its review.

XI - Reporting results of OA review by
the four audit institutions:

The four audit institutions are empowered to criticise any malpractice and maladministration of the government discovered during any OA review. Except in the UK, the report may also contain the auditor's observations and recommendations for rectifying whatever has been subjected to the auditor's criticism. Between these two views is the Federal Audit of the Republic of Germany which according to Normanton "was to make recommendations at the request of Parliament, the Government, or any of the Federal Ministers".¹³ In Canada and Sweden the audit reports present both the auditor's opinion and the audited agency's replies to the audit findings, while in the US the GOA's report is "... often of great interest but not much detail is given and there is sometimes no mention of the views of the departments criticised."¹⁴ It is believed that when Normanton described the report prepared by the French Court of Accounts he gave an example of what the minimum content of any OA audit report should be, Normanton states that

"The Cour [court] is very frank in its criticism of administrative behaviour and of legislation which it believes to be inadequate, unsound or unworkable. The explanations furnished by ministers and other public bodies are printed in full at the back of the report volume. The cour's observations are exceptionally lucid and readable and sometimes reflect very detailed research The text contains recommendations, exhortations, admonitions and suggestions for administrative reforms of all kinds"¹⁵

Therefore, the UK NAO, by not suggesting any

recommendations, puts itself in a position less effective and less helpful to its audit recipients than the other three audit institutions. Furthermore, this type of report which presents no suggestions and recommendations is of limited use apart from in an accountability relationship. The researcher's own opinion on this is that the audit report should contain broad, general guidelines and recommendations which leave the audited agency and the decision-makers to work out the details. By doing so the auditor not only saves his audit report from being dismissed by a simple excuse such as, "we do not know how to rectify the situation" or "we do not know from where to start our correction process" but also by recommending general solutions, he assists the audit recipients, [audited agency and the legislature] in implementing his audit findings while he maintains his state of independence. In addition, criticising is an easy task but to propose answers or steps to rectify the situation requires a competent person, possessing adequate knowledge and experience, to perform the audit, and according to Normanton "This may have the effect of increasing the auditors' understanding of the practical problems of administration"¹⁶ and therefore his criticisms will be realistic ones.

The researcher strongly supports the idea that the OA audit report should contain comments made by the audited agencies on the situation criticised, simply because the auditor is interested in the financial and economical consequences of government decisions rather

than the political motives behind them. Consequently, there are situations where the behaviour of the audited agencies cannot entirely be explained in financial and economic terms because these situations are a by-product of political decisions. Therefore, it is important that the auditor should provide the Legislature with all available details on the situations criticised in his report to enable the Legislature to take an appropriate decision on them.

XII - Follow-up system of the four Countries:

It could be concluded that all four audit institutions agree on the importance of having a follow-up system to the audit review itself. But differences exist on the question of who should perform the follow-up investigation. In the UK, the Public Accounts Committee [PAC] is responsible for overseeing and monitoring the steps taken on the auditor's findings, while in the other three countries, the audit institutions themselves check on action taken by the audited agencies on their audit reports.

As has been mentioned in the UK section, the C&AG believes that when his audit reports are followed-up by PAC it makes for better effectiveness for the NAO's report, but the researcher believes that the C&AG's opinion might be based on the assumption that PAC's time and resources are entirely devoted to NAO's reports. The reality is something completely different, PAC, as one Committee of the House of Commons, has many other duties to perform which may adversely affect the attention given

to the NAO's report, running the risk that the report might be filed away without receiving adequate attention. In a situation like this the report could be completely lost: NAO has no right to check on the steps taken on its report and findings.

In America, Canada and Sweden, the audit institutions are themselves responsible for ascertaining that their audit reports have been carefully considered and appropriate steps have been taken to correct the situation. The results of these follow-up investigations are reported to the appropriate authorities i.e the Legislature branch of the government. It would seem that this approach guarantees that the audit reports receive appropriate attention from the audit recipients.

The conclusion which might be drawn from reviewing the approaches of the selected countries is that the audit institutions have no powers to enforce or impose their findings and opinions on the audited agencies. To be more effective the audit institutions should at least be fully backed by, and their reviews fostered by, one of the two branches (Legislative or executive) of the government. This would lead to a rejection of the idea that "Audit Is a Fourth Power", which is not to say that audit institutions have no powers but that they are powerless unless they are fully backed by Legislature or the Executive. The power of audit institutions is indirect.

The Underlying Cause of the Differences:

The basis for categorising the four countries into

two groups is the role of the audit institution in performing effectiveness reviews, and policy and objective investigations. Accordingly the Canadian and British audit institutions form the first group while the Swedish and American audit institutions form the other. The audit institutions of the first group review government policies and objectives indirectly by reviewing systems and procedures to ensure the appropriateness of the information generated and supplied to the decision-makers which consequently could increase the overall effectiveness of the government agencies. The Swedish and American audit institutions not only investigate the government policies and objectives but also are empowered to propose alternatives to those policies and objectives.

According to the Canadian "Adam Reports" "The role of auditors is constantly evolving in response to changing public needs and expectations" and therefore the underlying differences among the four approaches in reviewing government policies and objectives could be interpreted within this framework of the recipients' needs and expectations.

1. The System of Government:

The system of government of the four countries consists mainly of two branches, Parliament (Legislature) and the executive. The researcher believes that the way in which the members of the two branches are elected has direct consequences on the approach adopted by the audit institution in reviewing the government policies and

objectives.

In the case of the United States, members of Congress are elected separately from the president, the head of the executive branch, and therefore the majority of congress may represent particular political thoughts and ideologies, [Political Party], different from that of the President.

In Canada and the UK the election for Parliament not only determines the members of the Parliament but also the Party entitled to form the government, the executive branch. Since the government in Canada and the UK is always formed from the party which possesses the majority in the Parliament, it could be concluded that the government and the majority of the members of the Parliament share views and have agreed on the objectives and policies under which the executive branch will operate [Party Platform]. Furthermore, in Canada, and to a large extent the UK, "funding and policy decision are made almost entirely in the executive branch by the Prime Minister and his cabinet".¹⁷

The US situation is completely different where the congress, representing one party, sets the government policies and the President, who may represent another party, is responsible for the realisation of those policies. Consequently, this necessitates the review of policy and objectives to ascertain that the president and members of his government are really complying with the intention of Congress, and to ensure the adherence of the government to those policies and objectives set by the

Congress.

Where a clear separation of power exists, and where the responsibility for setting policy is divorced from the responsibility for realizing it, the effectiveness auditing and policy review becomes the core of any OA investigation but where these powers and responsibilities are mixed then needs of the policy-makers could be satisfied by reviewing the policy and effectiveness of the government indirectly through investigating government systems, and not the policies themselves; simply ensuring that the government has established the necessary systems which could lead to the implementation of, and adherence to, the policies prescribed by Parliament.

The above discussion may be better understood if the Swedish case is explained. The Swedish system is composed of Parliament and the government. The government consist of small ministries, responsible for setting policies, and large central government agencies, responsible for the realization of policies determined by the ministries. It is clear that a separation does exist and therefore there is a need to check that the agencies are actually implementing the policies determined for them by the ministries. The audit recipients expect that the appointed auditor will give them some assurance that the policy adopted by the agencies is, in fact, the same policy which has been determined by the ministries. As has been mentioned earlier in the section on Sweden, the SNAB's main audit activity is to review the effectiveness

of the government agencies and whenever appropriate to suggest alteration to government policies.

2. Public expectations and intentions prior to the introduction of OA review

The auditor's role under OA review and the expected objectives of OA investigations differ in accordance with the intention behind the introduction of this type of review and also is affected by the expectation of the interested parties i.e. government, Parliament and the audited agencies.

Starting with the UK situation, to be precise, the UK central government, the intention of the present government, which introduced and supported the introduction of the VFM audit in this sector, "..... reflected in its programmes for reduction of the Civil Service and the Rayner Scrutinies, a broad Public concern about the cost and efficiency of the public sector".¹⁸ The intention behind the introduction of this type of audit in the UK local authorities could be extracted from the allegations made against officials of local authorities which were presented to the Committee of Inquiry on Local Government Finance. The following charges are those most frequently levelled against local authorities:

- "(i) overstaffing,
- (ii) rises in salaries and wages and up grading of posts following Local government reorganisation.
- (iii) Proliferation of departments and chief officer posts.
- (iv) unnecessarily high standards in building and equipment especially in leisure

- facilities;
- (v) undercharging for services;
- (vi) operational inefficiency, especially indirect labour organisations;
- (vii) over-generous attendance allowances to elected members;
- (viii) extravagance in hospitality, official ceremonies and use of official cars".¹⁹

It is clear that the concern of the interested parties is not to evaluate the policies or effectiveness of the local authorities but to establish a system which is capable of eliminating waste and inefficiency. This conclusion accords with the fact which has been stated by David Barrett, the County Treasurer of Lincolnshire County Council, that

"Reviews have been carried out of the comparative statistics available for education, social services and highways with the intention of identifying and investigating areas where possible reduction in spending could be made".²⁰ [The emphasis has been made by the researcher].

Therefore the overall intention of the introduction of VFM audit in the UK was to combat waste and inefficiency rather than reviewing effectiveness;

"In the UK, attempts to gain greater value for money have been related to the present depressed economic climate rather than any need to provide for the wider accountability of government expenditures. Typically, the emphasis has been upon the problem of monitoring outputs/standards while reducing financial inputs in real terms" ²¹

Furthermore the introduction of VFM audit in the UK has stemmed from a very different set of political issues

"Rather than being part of a debate on the democratic accountability of public institutions, British discussions have adopted a more economic stance, placing more

emphasis on the need for economy rather than on accountability per se....."22

Consequently, the prior feeling of the interested parties was that the government was suffering from problems which were caused by things other than wrong policies or ineffective government activities. As John Fielden describes the problem of the government.

"The executive has paid too much attention to policy planning and formulation and has been shown to be bad at execution. Did a continuing series of scandals over waste and incompetence imply that public bureaucrats were bad managers?" 23

So it is not surprising to see the UK approach to be an indirect one for reviewing policies and effectiveness, with the main aim being to increase economy and efficiency, as the results of the empirical work show.

In the United States the events which have led to the introduction and expansion of the audit scope differ from those which led to the introduction of VFM audit in the UK. Two significant events set the stage for this introduction:

- "first, the Holifield hearings of 1965 precipitated a major change in GAO's approach to reviewing defense contracting procedures. Second, the emergence of the great Society programs expanded the federal role beyond such traditional programs as building highways and meeting payrolls to ameliorating the problems of the Nation's Poor by providing health, education, welfare, and social benefits" 24

This led members in both the House and the senate to sponsor two acts of legislation with the purpose of increasing the effectiveness of the committees of both Houses in overseeing the programmes under their jurisdiction, and to improve the effectiveness and

efficiency of the Federal Government by strengthening Congressional procedures for the review and authorization of federal programmes and by improving the reporting requirements. The first Act is the Sunset Legislation Act, which requires on-going programmes to be reconsidered periodically before they are authorized additional funds. A ten-year schedule was set out over which all programmes will be subject to termination unless reauthorized following a programme review. The other Act is the Sunrise Legislation Act, which requires clear statements of objectives and reporting requirements before programmes are authorized operating funds.²⁵ So the intention of the Americans were in the first place directed towards the effectiveness of government services and the need for clear government objectives rather than combatting waste, extravagance and inefficiencies and therefore the approach came to fulfill the expectations of the interested parties.

The intention behind the introduction of this type of audit in both Canada and Sweden was explained in the sections on the two countries.

3. Legitimacy of the government activities:

The third and last factor behind the above-mentioned differences is growing demand for questioning the legitimacy of government decisions and state interventions in certain areas of economic and social life. A new type of demand, a demand for greater visibility of government processes and a more systematic examination of government activities and the results

achieved. According to A. Hopwood, it is not surprising, considered from this angle, that

"..... government audit operations are most highly developed in those countries, such as the USA, where there has been a longer tradition of suspicion of government activities, and least developed in those countries, possibly such as France and Germany, where the machinery of government has had a greater historical legitimacy." ²⁶

Consequently, the audit approaches of the countries selected reflect the degree of legitimacy of the government activities. On the basis of the legitimacy of the government activities, the four countries can be split into two groups; Canada and the UK in one group, and Sweden and the US in the other, sharing the same degree of legitimacy of their activities.

The way in which these factors are interrelated plays a major role in determining the contents of the OA review and the auditor's role in any given country.

It seems appropriate to conclude this chapter by stating which approach the researcher would recommend to Kuwaiti Audit Bureau.

By referring to the circumstances which exist in the State of Kuwait, as explained in chapters 2&3, the researcher believes that the direct role in reviewing policy and effectiveness of the government should be the prime target of the Kuwaiti Audit Bureau, but because of the existing circumstances such as:

1. The lack of performance measurement criteria,
2. The sensitivity of the top government officials,
3. The tradition, lack of motivation, and lack of education and training programmes in the Kuwaiti

public sector.

4. and finally, the lack of clear statements of government objectives.

The researcher believes that the introduction of OA review in Kuwait should happen in two stages. In the first stage, as a short term solution, (10 - 15 years), the Kuwaiti Audit Bureau should be given an indirect role, (as in Canada and the UK), in reviewing the government policies and effectiveness. When the above-listed obstacles are solved making the environment in the Kuwaiti public sector more ready to accept the auditor as an evaluator of government policy and effectiveness, then the Kuwaiti Audit Bureau should be given a direct role (as in USA and Sweden).

Since the American approach has been fully researched through the review of the published literature and internal documents supplied to the researcher by the GAO and through an interview with an American Consultant Team working in a joint audit project with the Saudia Arabian Audit Office, and because of the above listed circumstances, the researcher will next undertake an in-depth investigation of the UK/Canadian approach.

The fieldwork in the next chapter shall concentrate only on the UK approach, because the reviewed literature revealed that the only comprehensive research project carried out in this area of specialisation is by J.J. Glynn in his book "Value for Money Auditing in The Public Sector". On the basis of this book Glynn published an article entitled "Value for Money - An International

Review And Comparison", where he states that:

"Much of the material in this paper has been supplied by each country's national audit office. This material tends to discuss mainly the philosophy and recommended techniques of undertaking VFM audits. However, little documentary evidence is available on what actually happens in practice. Therefore, an important caveat is that there may be wide divergence between the recommended approaches and actual practice".²⁷(emphasis added by the researcher).

Glynn, in his book, continues:

"whilst accepting that the Exchequer and Audit Department has in recent times devoted greater attention to VFM auditing, little else is known".²⁸

The researcher concludes from the two quotations above that there is a lack of comprehensive literature on UK VFM audit practice. Furthermore, as the researcher is based in the UK it seemed easier to gather data by questionnaire surveys and interviews in the UK than in other countries.

Therefore, the researcher intends to direct his attention and the scope of his empirical work towards the practice of VFM audit in the UK Public Sector.

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CHAPTER EIGHT

THE BRITISH VALUE FOR MONEY AUDIT SYSTEM IN PRACTICE:
SOME EMPIRICAL EVIDENCE

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Introduction

Determining the sample population and sample size

Type of questionnaires

Designing the questionnaires

Sending out the questionnaires

Analysis of the findings of the field survey

A. Statistical Techniques

B. In-depth analysis of the field work survey:

Firstly, the analysis of the Programme Managers' replies:-

1. VFM audit objectives
2. Different VFM audit basis
3. Internal arrangements for carrying out VFM audit in UK organisations.
4. Determining the scope of VFM audit in UK organisations
5. The major obstacles
6. Factors affecting the implementation of the VFM audit report
7. The main sources for indentifying objectives and performance criteria of the government programme
8. Performance analysis and criteria
9. The auditor's competence
10. Needs for studying policy issues
11. Implementing and follow-up VFM audit findings

The analysis of the auditor's replies

1. Types of audit performed by the external and statutory auditors.
2. Approaches to the performance of VFM audits.
3. The lack of information and the auditor's role.
4. The auditor's role in implementing his VFM audit findings.
5. The availability of the VFM audit report

Some general views on the UK VFM audit approach.

Some concluding remarks.

CHAPTER EIGHT

THE BRITISH VALUE FOR MONEY AUDIT SYSTEM IN PRACTICE: SOME EMPIRICAL EVIDENCE

Introduction

For the reasons set out in previous chapters, the field work of this research project will concentrate on local authorities and National Health Authorities in the UK.

The main purpose of this chapter is to acquire first hand data to illustrate how the British VFM audit is conducted and to describe the overall state of current VFM audit practice in UK organisations. It is not the concern of this research project to draw conclusions about general audit practice in the UK public sector.

Determining the sample population and sample size:

The researcher reviewed the following listed publications to identify organisations for inclusion in the sample and to choose a suitable sample size needed for this research project.

(1) The Municipal Year Book 1985,

Edited by W.A.C. Roope and published by Municipal publications Limited, London 1985.

(2) Public Authorities Directory 1985,

Edited by Geoffrey Smith, and published by BKT publications, London.

(3) Scotland regions 1985-86,

Incorporating County and Municipal Year Book for
Scotland [54th Edition]

(4) The Oyez Longman of Local Authorities, 1983,

Edited by Oyez Longman and Published by Longman
Publishing Limited, London 1983 and finally,

Godwin's Concise Guide to local Authorities in England
and Wales published by George Godwin Limited.

Deciding the size of the sample is an important part of conducting any field work. The procedures involved in determining the sample size vary from a straightforward decision to have a certain number of items, organisations, to the application of statistical techniques. Since this project is considered to be the first to deal with VFM audit practice in the UK organisations, and because this research project is aimed at understanding VFM audit practice rather than evaluating the performance of these organisations, it was felt that one-hundred organisations drawn from all UK local authorities and health authorities would be sufficient to achieve an over-view of the UK public sector for this research project.

It was decided to group the British local and health authorities into the following three groups;

A- Local authorities in Scotland,

B- Local authorities in England and Wales,

C- and finally, health authorities throughout
the UK.

The researcher decided to examine thirty organisations from Scottish local authorities (group A), and another thirty organisations from the health authorities (group C), while the remaining forty organisations came from group B (The English and Welsh local authorities).

By selecting the organisation in this way the intention was to cover as much as possible of the UK VFM audit in order to obtain a more complete picture of UK VFM audit practice.

Due to the lack of a comprehensive literature on UK practice, the researcher had no prior knowledge as to which areas would be more advanced than others and this encouraged him to put an equal emphasis on the data gathered through his field work.

Type of questionnaires:

The British VFM audit acts put the onus of achieving VFM in public organisations on the managements of these organisations. External and statutory auditors were given the role of monitoring the performance of these organisations. It was felt necessary, for this research, to develop two sets of questionnaire, with some questions common to both; the first would be directed towards exploring the role played by the external and statutory auditors; and the second would examine the different arrangements made by public organisations to comply with the audit acts.

Designing The Questionnaires.

The available literature on the design and format of questionnaires shows that there are two different types, the distinction depending on the type of questions forming the body of the questionnaire. The two forms are the "open-ended" questionnaire and the "closed-ended" questionnaire or some might call it the "forced-choice" type questionnaire. With the latter form a list of possible alternative answers to each question are provided for the respondents to choose from. In an open-ended questionnaire, the respondents receive questions only and are asked to answer in their own words.

The open-ended questionnaire has the advantage of being easy to formulate and it can generate more information than the closed-ended type by allowing the respondent to state his own ideas and opinions. The disadvantages are that it is time consuming and difficult to analyse. On the other hand, closed-ended type requires an extensive review of literature before formulating the questionnaire, but it is easy to answer and analyse.

For the purpose of this research project, the closed-ended type of questionnaire was chosen, however, space was provided for any ideas or additional views at the end of relevant questions.

The researcher decided on the method of grading the answer using odd numbers, [numerical type of scale i.e 1,3,5....], in order to simplify the task of analysing the results.

Sources of the ideas for both sets of the questionnaire were extracted from the reviewed literature and from an interview with the Chief Internal Auditor at Strathclyde Regional Council. A copy of both questionnaires is appended to this chapter.

Although there was no problem in obtaining the addresses of all the UK local and health authorities or those of the latter's statutory auditors (D.H.S.S. audit branches). However, some difficulties arose in obtaining the addresses of the external or statutory auditors of the UK local authorities. To obtain these addresses, the researcher telephoned both the Audit Commission in London and the Commission for Local Authority Accounts in Scotland, and asked to be supplied with a complete list of addresses of their District Auditors, (in England and Wales), and of the appointed private accounting firms, (in Scotland). Both institutions reacted positively to the researcher's request.

In England and Wales the Audit Commission has headquarters in London and Bristol. There is one Metropolitan Audit District and twelve Audit Districts spread throughout England and Wales. In Scotland, the Scottish Commission appoints private accounting firms to audit local authorities in Scotland. In many cases a single private accounting firm audits more than one local authority i.e., regional or district authorities. Consequently the researcher was faced with two alternatives. The first option was to mail multiple copies of the questionnaire to those firms which audit

more than one local authority. This meant mailing a copy for each local authority audited by a single private accounting firm. Alternatively, a single copy could be posted to every appointed accounting firm regardless of the number of local authorities audited by them. After careful consideration, the decision was to go ahead with the second option for the following reasons:

- (1) Sending a single copy of the questionnaire would overcome any duplication in responses which would require more time and effort in analysis.
- (2) It was felt that a single copy of the questionnaire would encourage the respondents to complete and return the questionnaire.

It was decided to send out thirty-seven copies - one to each of the appointed accounting firms in Scotland.

Sixty-four copies of the second questionnaire (that of the auditors) were issued in total, spread over three groups as follows:

- A) Sixteen copies were issued to the Audit Districts and Headquarters of the Audit Commission in England and Wales.
- B) Thirty-seven copies were mailed to the appointed private firms in Scotland, and
- C) Eleven copies were sent to the DHSS audit branches all over the UK.

In November 1985, the questionnaire was sent out and a reasonable time was given before taking any further steps.

The auditors' questionnaires were mailed to the

senior audit partner of the appointed private accounting firms or to the chief district auditor in the Audit Districts, and Headquarters of the Audit Commission and the DHSS Audit Branches.

As has been mentioned, the researcher decided to send one-hundred copies of the second set of his questionnaire (organisations' Questionnaire) to the chief executive or to the chairman of the Board of the selected UK organisations, rather than sending them to the chief internal auditor or to the director of finance. This was decided because it is the nature of the business of public sector organisations that the approval of top public officials is considered a pre-requisite for any co-operation by subordinate public servants. One would also expect the chief internal auditor or the director finance to be more co-operative should the chief executive or the chairman of the board instruct them to be so. Additionally, the identity and position in the organisation, of the individual or department responsible for carrying out VFM audits, is not clearly stated in the published material on the UK public organisations; therefore, it was felt that the best possible way to reach the responsible individual or department would be through the chief executive or the chairman of the board.

Sending out The Questionnaires:

In early December 1985, one-hundred and sixty-four copies of both sets of the questionnaire were posted with covering letters, in which the researcher introduced

himself and explained the purpose of his research project. Giving assurance that all replies would be treated in the strictest confidence, the researcher asked all respondents to assist him in his research project by completing the questionnaire and returning it in the stamped addressed envelope provided. A copy of the covering letter is appended to this chapter.

During the seven weeks waiting period, the researcher's supervisor received two telephone calls; one from the Audit Commission and one from the Commission for local Authority Accounts in Scotland. The Audit Commission informed the researcher that a single copy would be returned on behalf of all District Auditors in England and Wales. The Commission for Local Authority Accounts in Scotland replied in similar vein; one copy would be returned on behalf of all the private accounting firms appointed by the Commission. In addition, the supervisor was informed that the Commission was ready to further assist the researcher by providing him with more information on their reply, by relating their readiness to answer any question that the researcher might have, and, most importantly, by showing a willingness to meet the researcher.

A month later, the researcher wrote a letter to the Deputy Controller of Audit for Value for Money at the Commission for Local Authority Accounts in Scotland suggesting a date for his visit. A copy of the researcher's letter to the Deputy Controller of Audit for Value for Money and the Commission's reply is appended to

this chapter. In addition to the above telephone calls, the researcher received two letters, from the private accounting firms of "Cooper and Lybrand", and "Price Waterhouse". Both stated that they had been advised by the Deputy Controller of Audit's office that the Commission would reply on their behalf and were therefore returning the questionnaire uncompleted. A copy of both letters is appended to this chapter.

After the agreed seven weeks waiting period, the response by the selected organisations was encouraging, while that of the external and statutory auditors was somewhat disappointing. In consequence, the researcher decided to start a follow-up process.

On the 20th of January 1986, the researcher started the follow-up process. This was not limited to the external and statutory auditors but also included those organisations which had not yet responded. Each received another copy of the questionnaire with a fresh covering letter explaining that the researcher was keen to hear from a large number of people and that as his record showed that their response had not yet been received, he would be grateful if the recipient could spare the time to complete his questionnaire. A copy of the follow-up letter is appended to this chapter.

It was decided to wait for another two weeks from the time of sending the follow-up letters. During these two weeks the researcher received two more responses from the selected UK organisations bringing the total number of replies to seventy-one. During this period the

researcher also received a letter from the DHSS, National Health Service Audit in which the Department indicated that "A single response will be made on behalf of the DHSS Audit Branch". This was received on the 27th of January 1986. In their covering letter the Department offered the researcher the opportunity to acquire further information and "urged him ... not to hesitate to contact" them for that purpose. A copy of both letters from the DHSS, National Health Service Audit is appended to this chapter.

At this stage of the field work, it was felt that it would be better if the officials of the selected organisations and their external or statutory auditors had an opportunity to discuss, or at least to comment on, the results of the questionnaire survey. The idea to interview some of the external or statutory auditors and top public officials of the selected organisations was strongly supported by the researcher and his supervisor. In consequence, six interviews were arranged with the public officials and another three were arranged with the external or statutory auditors. A table showing the data of the interview, name and position of the interviewee, and the institution represented is appended to this chapter. Of these interviews one with the Principal Auditor at the city of Aberdeen, and one part of an interview with the Chief Internal Auditor at the Forth Valley Health Board, have not been taped. The rest were taped in full by the researcher. In Aberdeen, the researcher employed a different interviewing technique

and moved from the policy of asking specific and straightforward questions to one of raising an issue or subject related to VFM audit practice in the UK and asking the interviewee to give his opinion or to comment on the subject. In this case there were two interviewees, The Principal Auditor and his Deputy at the city of Aberdeen. Thus the Aberdeen interview was more like a panel discussion, and in meetings like this taping may put the interviewee(s) off and discourage them from answering freely.

The reason for not taping the whole interview in the Forth Valley Health Board was due to the fact that the researcher was attending a meeting between a group of auditors from the Forth Valley Health Board including the Chief Internal Auditor and officials from one of the Hospitals in that area to discuss some audit findings (For reasons of confidentiality, the name of the hospital will not be disclosed). At these meetings taping is not permitted. The researcher, however, considers this meeting to be part of the interview.

Analysis of the findings of the field survey

Under this heading the researcher shall discuss the statistical techniques applied in analysing the collected data, make some general comments on the responses received and then carry out an in depth analysis of these responses.

A - Statistical Techniques.

The statistical techniques applied in analysing the data collected by the questionnaire survey are simple and straightforward calculations of the weighted average (means) for all questions, except those Yes/No type questions where cross tabulation and frequency distribution are calculated.

As has been mentioned earlier in this chapter, the purpose of undertaking this questionnaire survey is to collect some data on the UK VFM audit practice and to understand how VFM audit is performed by the selected UK organisations and their external and statutory auditors and since this research project is limited to the study of a single topic or variable and is not intended to test some pre-determined hypothesis or to find out any relationship which might exist between variables, (e.g. two groups, two samples etc.), therefore the researcher preferred not to use the more sophisticated statistical techniques, especially those commonly used in social studies i.e. correlation analysis, T-tests and discriminant analysis, because it was felt that some of these tests or techniques were irrelevant to the data collected.

B - General comment on the results of the questionnaire survey:

As has been mentioned earlier in this chapter, one-hundred copies of the organisations' questionnaire were issued to the chief executive of some selected UK

organisations, seventy-one replies were received. These replies could be categorised as follows:

- (1) Sixty-two copies of the questionnaire were completed and returned, mainly by the director of finance or by the chief internal auditor of the surveyed organisations. A very small number of replies were completed by senior public officials i.e., City Chamberlain or Principal auditor of the selected organisations.
- (2) Nine copies of uncompleted questionnaires and covering letters were received from some organisations. In these covering letters the officials of these organisations stated their reasons for not completing the questionnaire, the main reason being that the size of their organisation is so small as to render VFM audit practices irrelevant to their operations.

With regard to the auditors' set of questionnaires, mailed to the external or statutory auditors, the response was higher than expected. Ten copies were completed and returned to the researcher. These responses can be grouped in the following categories:

- A - Three copies were completed by private accounting firms in Scotland (their names are confidential).
- B - Two copies were completed by two Audit Districts in England and Wales.
- C - Two copies were completed by two DHSS Audit Districts.
- D - A single copy was completed by the Commission of the

Local Authority Accounts in Scotland on behalf of all private accounting firms appointed by them. This copy could be considered as representing thirty four private firms appointed by the Commission. The remaining three firms responded individually (group A).

E - One copy was completed by the Audit Commission in England and Wales on behalf of all branches and offices of the Audit Districts in England and Wales. This copy again does not represent all Audit District because two Audit District's offices responded individually, (group B), therefore this copy could be considered to be represent fourteen Audit District's offices in England and Wales.

F - And finally, a single copy was completed by the DHSS National Audit Service Office on behalf of all the DHSS Audit branches. Following the same procedures, explained earlier, it could be concluded that this copy represents nine DHSS audit branches in the UK.

Altogether the researcher received seventy-one responses from the selected UK organisations which means an overall response rate of seventy-one percent (71%). Ten replies were received out of sixty-four external and statutory auditors which represent a response rate of almost sixteen percent (16%). As a matter of fact three responses represented multiple responses which lifted the total to sixty-four responses to represent a hundred percent (100%) response rate.

In cases where the questionnaire was completed by an individual on behalf of his colleagues, which was the case specifically with the replies from the Audit Commission, DHSS and the Commission for Local Authority Accounts in Scotland, there was the possibility of treating the responses in one of two ways.

Firstly, such questionnaires could have been regarded as a multiple response and treated as a summary of a number of replies rather than as a single reply. For example, the reply from the Commission for Local Authority Accounts in Scotland could have been treated as a summary of thirty-four responses, and consequently could have been assigned some weight to reflect that number of respondents. In this case the weight assigned to this reply would have been 54% of the total weight. In similar vein, the weights assigned to the Audit Commission's and the DHSS's replies would have been 22% and 14% of the total, respectively. Alternatively, the analyst could have treated the multiple responses as a single response, regardless of the number of individuals on whose behalf the questionnaire was completed.

As stated earlier in this chapter, the questionnaires received from these audit bodies were accompanied by letters which stated clearly that the officials who completed the questionnaires were acting on behalf of all the appointed private accounting firms (in the case of the Commission for Local Authority Accounts in Scotland), or on behalf of all Chief District Auditors (in the case of Audit Commission), or on behalf of all

the DHSS audit branches (in the case of the DHSS). In other words, the Depute Controller of Audit - Value For Money - from the Commission for Local Authority Accounts in Scotland replied on behalf of all the private accounting firms appointed by the Commission and the Director of Accounting practice completed a copy of the questionnaire on behalf of all Chief District Auditors in England and Wales. Consequently, there would seem to be some justification for treating these as multiple responses. However, the researcher decided not to adopt this approach, but has treated these responses as representing single responses, instead, for the following reasons:-

1. At the end of the day, only one copy of the questionnaire was completed and returned by each of these bodies.

2. As mentioned earlier in this study, the main objective of this research is to explain audit practices in certain sections of the UK public sector rather than to pass judgement on these practices. Consequently, treating these multiple responses as a single response is, in the researcher's view, sufficient for the purpose of this research study.

3. (a) The absence of a specific VFM Audit Act that would guide VFM auditors in one of the three areas researched in this study;

- (b) The lack of clear guidelines for performing VFM audit in local authorities in Scotland and in the DHSS, and

(c) The fact that the central government body responsible for auditing local authorities in Scotland makes significant use of private accounting firms to perform this type of audit on its behalf and the published manuals and guidelines of these firms such as "Value For Money Auditing Manual" by Price Waterhouse suggest a range of different procedures and practices to be followed in the course of performing such audits.

For all of these reasons, the researcher believes that treating these responses as single responses is appropriate for the purpose of this study.

C - In depth Analysis of the Field Work Survey

The results of personal interviews will be presented in the same section where the analysis of the questionnaire survey is shown. In addition, the researcher plans to divide this section into two parts; where the first part presents the results of analysing the organisations' questionnaire followed by the results of analysing the auditors' questionnaire in the second.

The Analysis of the Programme Managers' Replies:

1. VFM audit objectives

The introduction of VFM audit is aimed at satisfying certain needs in an organisation or a sector of the economy viz. better control systems, improved efficiency and economy, and greater accountability. It may be useful to know where the pressure to introduce VFM audit into UK organisations comes from. Those best able to answer this question are probably the internal staff of these organisations i.e. programme managers, rather than external auditors. Therefore, in the questionnaire sent to organisations, the first question was "what is (are) the main reason(s) for adopting VFM audit by your authority (organisation)?" The response is presented in table one.

The table provides clear evidence that VFM audit practices in the UK organisations surveyed are directed towards investigating ways of saving money, increasing income, and combatting waste and extravagance. Furthermore, the table shows that the major single argument for VFM audit is the financial one of reducing

1. What is (are) the main reason(s) for adopting VFM audit by your authority (organisation)?			
Options	T.UW.R	% T.UW.R	Rank
To show defects in your own management and control systems	11	9.9	4
To help in strengthening the departmental management and control systems	22	19.8	2
To investigate ways for saving money, increasing income and combating waste and extravagance	57	51.4	1
To help in meeting the needs of taxpayers, ratepayers and elected officials to obtain specific and sound information about the effectiveness, quality and efficiency of the authority's performance	21	18.9	3
Total responses	111		

Notes on the table
T.UW.R = Total unweighted Responses

Table 1

costs and increasing income.

This finding was not unexpected. When money gets tighter the government has to think of ways of reducing costs, rationalising expenditure and making savings. This conclusion is based on the researcher's understanding of the 1979 election programme of the present government. Another piece of evidence supporting the findings is the main slogan of programme managers who were interviewed, namely, "In this financial year I saved this board/authority, 'X' thousand pounds". To illustrate some of the savings achieved; one external auditor investigating the subject of "over-lap of shifts" in particular organisation indentified possible savings of sixty-five thousand pounds a year for a medium size entity. He suggested that the way to achieve this saving would be through "reorganising the shifts and more flexible use of the part time staff".

According to another interviewee, a chief internal auditor in one of the Scottish local authorities, it is "... not always the VFM audit recommendation [that] leads to cash or any other savings". To illustrate his point on the subject of building homes and encouraging private ownership of council houses, he said "..... the council is going to spend around £800,000 on building new houses next year.... if they [The Council] adopt any recommendations I [Chief auditor] make, we will not spend any less money but hopefully might end up with more houses". The researcher agrees that in this particular example this local authority had not achieved any saving

but by applying the VFM audit to this activity the costs of the authority's policies and activities were reduced.

The table shows that improving the management control system through VFM audit investigations ranks second, while strengthening the accountability relationship through providing rate payers, taxpayers and elected officials with information about the operations of these organisations is ranked third.

In all nine interviews conducted by the researcher only one example came up to illustrate how VFM audit investigation helped the programme managers to strengthen the management control system. The internal audit department of a Scottish local authority carried out an investigation into "Provision of Disabled Apparata". The council supplied alterations to houses for the disabled. The major finding of the project was that there was a lack of monitoring of the equipment supplied by the Council, "Nobody seemed to monitor whether the assets that had been provided [by the Council] did actually carry-out the job". In undertaking this investigation the audit team found an instance of a warning bell having been fitted in the home of a woman who suffered from arthritis. Her condition made it impossible for her to use the bell, but no-one had actually ascertained whether or not she would be able to make use of it. The team suggested that a switch would be more practical in this case.

The interviews revealed that there might be other reasons for undertaking VFM audit investigations in UK

organisations. The chief internal auditor of one of the Scottish local authorities stated that a VFM audit investigation was carried out by his department for the purpose of getting experience in VFM audit practice. An interviewee from a Scottish health organisation pointed out that his intention in including two to three VFM audit projects in his annual audit plan is "purely to provide a motivation element for my [his] staff". This motivation is achieved by concentrating VFM audit examinations on specific activities within the organisation which creates the feeling among staff that they are doing something constructive and is clearly visible to the rest of the organisation.

It is important to point out that the above-mentioned conclusion, that the introduction of VFM audit in UK organisations was aimed at isolating instances for savings or reducing costs, accords with the researcher's expectations, mentioned in the previous chapters. The introduction of VFM audit in the UK local and health authorities is aimed at achieving better economy and efficiency rather than a stronger accountability relationship or strengthening the management control systems.

2. Different VFM audit Bases:

The second question deals with VFM audit bases adopted by the UK organisations surveyed. In other words, how regularly is the organisation's VFM audit investigation carried out. The distinction between the

three listed choices in this question is in the degree of preparation and planning required. It is expected that performing VFM audit on a regular basis requires extensive preparation and probably long range audit plans running several years ahead. VFM on an "ad hoc" basis is probably less demanding than the first option, "Regular Basis". The number of VFM audit projects performed during any specific period depends heavily on the availability of resources.

The third choice the "One-off Basis", is expected to be the least demanding of the three options because VFM audit projects are carried out without any prior preparation or advance planning other than normal and routine planning necessary for any financial and regularity audit assignment, but are a direct reaction to matters which come up suddenly such as receiving a request from the Congressmen in the US. VFM audit exercise is described under this option as a "Trouble Shooting Exercise". Furthermore, performing VFM audit on a one-off basis, might indicate that the area of investigation is a more advanced and complex part of the organisation, or that the VFM audit project is a large one requiring huge amount of resources, or which cannot easily be split into smaller projects.

The decision to choose one option and not another depends, to a large extent on the size and complexity of the organisation's activities. Where the organisation is considered to be a large one and together with adequate resources available for VFM audit examinations, one would

expect that these examinations to be carried out on a regular basis. In a large organisation with somewhat limited resources available, one would expect that VFM audit projects would be carried out on an ad hoc basis. And finally, where an organisation is considered to be a large one, but is facing a serious lack of resources then one would expect either not to undertake VFM audit at all, or to do so on a "one-off basis".

The intention in asking question two is to find out the most commonly used basis by the UK organisations surveyed, and consequently to determine the degree of planning and preparation which go into the VFM audit investigations. It is also to determine the degree of continuity of such VFM exercises. Knowledge of these facts about the circumstances when the different bases could be applied along with the size of the organisations, could assist in predicting whether these UK organisations are facing difficulties, which is the first step to be cleared before introducing VFM audit. Knowledge of such expected obstacles could consequently help the researcher to predict whether such difficulties could occur in the state of Kuwait. The results of analysing the responses to this question is presented in table two.

The table shows that more than half of the respondents, 53% of the total, perform their VFM audit investigations on an ad hoc basis. Less than one-third carry-out their VFM audit investigations on a regular basis.

2. Your system of carrying out VFM audit is on:			
Options	T.UW.R	% T.UW.R	Rank
A regular basis	21	32.3	2
An ad hoc basis	33	50.8	1
One-off basis	11	16.9	3
Total responses		65	
Notes on the table:			
T.UW.R = Total unweighted responses			

Table 2

Since the researcher selected his sample from upper-medium sized organisations, it could be surmised these organisations are facing some constraint in adopting VFM, as shall be examined when responses to question number five are analysed. A chief internal auditor of a local authority explained that his staff of five auditors "normally work in teams of two," though had they "a stronger audit team" they could do more VFM audit examinations.

Table two shows that performing VFM audit on a one-off basis is the least popular and least commonly used form. The published literature on the experience of the National Audit Office, the then Exchequer and Audit Department, helps to show the reason for performing their

VFM audit on a one-off basis. Gordon Downey, of the Exchequer and Audit Department, states that :

"In the past, much of the work has concerned with 'trouble shooting' - dealing with schemes or programmes which have obviously gone wrong and identifying the underlying weaknesses in control - using examples of 'Bad value-for-money' as a means of securing improvement for the future.... some of the larger audit examinations of this kind will certainly continue, and we shall retain a capacity to respond to one-off investigations".¹

Finally, as a general comment on table two, although a total of sixty-five responses are shown where only sixty-two respondents completed the questionnaire, three of the respondents replied to this question by selecting more than one response, and the researcher accepted these as part of his analysis because of the justifications made by the three respondents.

In fact one respondent replied that "the regular review of VFM is generally carried out by the internal audit section. Reviews are carried out by the Audit Commission, private Consultants and the Chief Executive Department on an ad hoc basis". From this the researcher concludes that in any organisation it is possible to perform VFM audit investigation on several bases. Organisations may change from one base to another which varies with the level of hierarchy responsible for performing VFM audit exercises in any given organisation. The views of the respondent above support the distinction presented earlier explaining the differences between the three possible choices. It also indicates that where the cost of undertaking VFM audit investigation is relatively

high, as in the case of "using private consultants or external auditors i.e. "Audit Commission" or, where these investigations put extreme pressure on the limited resources available to the organisation i.e. "the executive's time" the best basis for VFM audit could be "ad hoc".

3. Internal arrangements for carrying out VFM audit in UK organisations

In chapter five of this thesis the researcher showed that the British approach to VFM audit puts the onus on the management and executives of public organisations to carry it out and to ensure success. Consequently, one would expect that different arrangements for carrying out VFM audit would be made by UK public organisations to meet the management's responsibility in this field. In order to discover these different arrangements question number three was included in the organisations' questionnaire. Question three reads "which of the following is responsible for carrying out VFM audit in your organisation?" followed by a list of five different arrangements. Responses to this question are presented in table three.

Generally, most of the respondents answered by selecting more than one option.

The table shows that forty-nine respondents out of sixty-two (seventy-nine percent) depend on their internal audit departments for carrying out VFM audit although, when multiple answers have been taken into consideration

3. Which of the following is responsible for carrying out VFM audit in your organisation?			
Different Arrangements	T.UW.R	% T.UW.R	Rank
Internal Audit Department	49	37.7	1
Management service and operational research units	19	14.6	3
External auditors i.e. District Auditors and C & AG'S staff	41	31.5	2
Specialised and experienced staff in VFM audit temporarily employed by the organisation	0	0.0	-
VFM audit committee	4	3.1	5
Others (please specify)	17	13.1	4
Total responses		130	
Notes on the table:			
T.UW.R = Total unweighted responses			

Table 3

this percentage drops to about thirty-seven percent, (37.7%).

Depending on external or statutory auditors for the performing of VFM audit examinations is ranked second with an overall percentage of more than thirty-one percent, (31.5%). This is followed by the choice of performing these audit examinations through "Management Service and Department Research Units" with a response rate of more than fourteen percent, (14.6%). Furthermore, the table shows that only four organisations out of the sixty-two surveyed have an audit committee. The surveyed organisations depend completely on their permanent staff to perform their internal VFM audit examinations. Finally, seventeen of the organisations surveyed have other arrangements for securing VFM audits, among which are, "Internal Management Accountants", "Staff of the Finance Department", Budget and Performance Review Sub-Committee", "Sub-Committee on Cost Accounting", "Committee on Policy and Resources and Treasurer" and "Management Group Units".

The results presented in table three mainly indicate three things, firstly, it indicates a complete rejection by the UK organisation surveyed in this research of the idea of employing temporarily, specialised and experienced staff in VFM audit examinations. This could be due to the high cost of such temporary employments. Secondly, these results may indicate that the programme managers of the surveyed UK health and local authorities consider themselves to be, somehow, responsible for

achieving better value for money in their operations. Thirdly, the table indicates that most of the UK organisations surveyed in this research, at least, are subject to VFM audit examinations performed by two different groups. One of the two groups is directly employed by the organisation, (internal staff), while the other group is the external or statutory auditors of these organisations. This conclusion can be clearly seen in one section of the UK local authorities where the appointed private accounting firms are required to spend twenty percent, (20%), of their efforts on VFM audit exercises every year, while these authorities already have some internal arrangements for performing VFM audit.

4. Determining the scope of VFM audit in UK organisations:

The intention of asking this question is to find out whose responsibility it is to determine the scope of VFM audit investigations in the UK organisation surveyed, in the cases of investigations performed by external auditors and those conducted by internal staff.

One would expect the answer to this question to be either that the group responsible for carrying out VFM audit investigation is in charge of determining its scope or alternatively that this decision rests with the elected officials or the programme managers.

The listed options for this question take into consideration the different groups who may have some influence on determining the scope of VFM audit in the UK

organisations. For example, the first choice of "External auditor" is considered to be a completely external group which has no other relations with the organisation expect in the performance of his audit duty. The second option of "elected officials" is not considered as a completely internal position because they have been elected to their posts and are different from the group, under the third option, who hold their posts on the basis of direct recruitment.

The plan for discussing the results of this question is to present those responses received from the programme managers of the UK organisations and then to present the auditors' responses to this question. The results of responses received from the programme managers along with the external and statutory auditors are presented in table four.

Firstly, Results of the programme managers' responses:

The table shows that almost one third of the total respondents gave more than one answer with the last option "other" being selected thirty-nine times out of eighty-eight. A complete list is presented in table (4-A). It is hard to conclude anything from this table other than that this decision rests with senior officials of the organisations. Since programme managers are considered to be senior officials, the results of the option "Others" can be added to the results of the "Programme Managers" option. Therefore, the column "Modified Responses" in table four shows that the decision to determine the scope of VFM audit rests mainly

4. Who determines the scope of VFM audit in your authority (organisation)?.

Options	Programme Managers						Auditors		
	T.UW.R	% T.UW.R	Rank	M.T.UW.R	M. %	M. Rank	T.UW.R	% T.UW.R	Rank
External Auditor	24	27.7	1	24	27.3	2	10	100	1
Elected Officials	16	18.2	2	16	18.2	3	0	0	-
Project or programme manager	9	10.3	3	48	54.6	1	0	0	-
Others (please specify)	39	44.3	-		-		-	-	-
Total responses	88			88			10		

Notes on the table:

M.T.UW.R. = Modified Total Unweighted Responses

M. % = Modified Percentages

M. Rank = Modified Rank

Table 4

A complete list of those who determine the scope
of VFM audit in the UK organisations

County treasurer
Chief Internal Auditor
Chief executive
Line managers or management
Management Board
All chief officers and members submit topics to VFM
Committee via management team of chief officers
Departmental Heads
Senior officers of the authority
Director of Finance
Chief internal auditor in consultation with director
of finance
Assistant county treasurer
Finance management services and policy planning
Chairman or general manager
Operation (performance) manager
Treasurer and unit management group
Department management team
Audit manager or Director of finance
Jointly agreed by audit, Management services, county
treasurer and Department chief officer.

Source: From the replies recieved from the selected UK
organisation. It is a reply to question number
four of the authorities' questionnaire

Table 4A

with the programme managers and the senior officials.

Table four shows that the option "External auditor" was selected twenty-four times while "Elected officials" ranking third, had been selected only sixteen times.

Secondly, Results of the auditors' responses:

On a priori grounds one would expect that external auditors would perform VFM audit investigations. Table four reveals that the external and statutory auditors of the UK organisations surveyed in this research project not only perform their audit duties, i.e. realising the VFM audit plans but they also determine the scope of their audit by selecting areas for their investigations. The table gives the impression that the elected officials and programme managers have no part in determining the scope or areas of VFM investigation when these investigations are to be conducted by the external and statutory auditors of the UK organisations. This independence of the auditors in determining the scope of their VFM audit is considered by the researcher to be a positive step towards better and stronger VFM audit projects in the public sector. However, the auditor's complete independence in determining the scope of his VFM audit of his VFM audit investigations might have a negative effect which could impede the full adoption of the auditor's findings once the VFM investigation is completed. Therefore, the researcher believes that there should be some sort of co-operation between the VFM auditors and the programme managers. Illustrating how the auditor can cooperate while maintaining his state of

independence, a representative of a government body of external auditors said that

"we request the external auditors to carry out studies in accordance with the 'Audit Guide' we cannot force them to, however we would expect them to ...They can say, 'NO, this is not applicable in this place'; 'it has already been done', 'something else is more important',..... They may do something else. Though they have the final decision..." [emphasis has been added by the researcher].

It could be concluded from this, that the scope of VFM audit performed by the external auditors is determined solely by themselves, while the scope of those VFM audit projects which are realised by internal staff is determined mainly by senior officials of the organisation with some sort of co-ordination and co-operation with the external auditor. As an illustration, one of the chief internal auditors interviewed in this research project stated that

"we do not have control over what they [external auditors] do, we try to co-operate ... there is no point in ourselves doing some work and a few weeks later the external people come and do the same work so we intend to have informal meetings with them [external auditors] and they will be aware of the areas that we are working on and they will tell us what they intend to do ... and what they want us to do ..." (emphasis has been added by the researcher).

5. The Major Obstacles

The researcher asked the respondents of both groups surveyed to indicate any obstacles which are obstructing the full implementation of their VFM audit plans. The results are shown in table five.

5. What, if any, are the major obstacles obstructing a full adoption of VFM audits in your authority? You may choose more than one answer. When you do so please rank your choice by entering (A) against the most important, (B) against the next important and so on.										
Options	Programme Managers					Auditors				
	T.W.R.	Mean	% T.W.R.	Rank		T.W.R.	Mean	% T.W.R.	Rank	
Lack or shortage of well qualified and competent staff	114	2.71	50.2	1		11	3.67	50.2	1	
Attitude of elected officials and programme managers	27	2.36	11.9	3		8	2.00	11.9	3	
Lack of sound Management information system	42	2.33	18.5	2		6	1.50	18.5	2	
Other obstacles (please specify)	44	2.75	19.4	-		10	2.50	19.4	-	
Total Responses	227					35				

Table 5

The purpose of asking this question is to identify the major impedimenta, which do exist and largely affect the full adoption of VFM audit plans with a view to avoiding similar obstacles which might hinder the introduction of this type of audit to the Kuwaiti environment.

Table five confirms the existence of some obstacles which hinder the full adoption of VFM audit in the UK organisations. It also shows according to the responses received by both groups surveyed in this research that the listed obstacles, under this question would have an identical score when the calculated means are used as the base for ranking them. However, this result differs when frequency distribution is used as the base for the ranking system.

The full adoption of VFM audit performed by external statutory auditors or by programme managers in the UK public sector, (health and local authorities) cannot be achieved because of the shortage of qualified and competent staff. The chief internal auditor at one Scottish local authority had only two men working for him who could carry out a VFM audit successfully.

This finding was expected because VFM audit investigation requires people of special talent with diversified knowledge and experience which is difficult to find. "Beyond basic financial training, performance auditing requires a variety of high level, multidisciplinary skills and techniques"². The effects of the lack or shortage of qualified and competent staff is

compounded if the available human resources are pre-occupied with other duties, the chief internal auditors at one of the Scottish local authorities stated that "the most consuming part of our work is investigation of frauds and irregularities which to a large extent stops us from undertaking as many system [and] VFM audits as we would like to".

Roughly thirteen percent and twenty-three percent of the programme managers and external auditors of the UK organisations respectively stated that their VFM audit programmes for a better coverage of operations of these organisations are affected by the attitudes of the elected officials and programme managers. The researcher can think of four different ways in which the attitude of these officials can impede VFM audit from covering all aspects of these organisations. These ways are:

- (1) by adopting certain policies: some policies can have an indirect effect on performing VFM audit through affecting the finding of VFM audit investigations and making these finding hard to implement and therefore useless. This, consequently does not stimulate the auditors' and programme managers' aspiration to carry out VFM audit investigation in certain areas. "We [chief internal auditor at a Scottish local authority] do operate under a policy of no redundancies and therefore what we were left with was really some administrative procedures or things to do with the question of goods and services".

(2) by opposing the auditor's plans: in this case the auditor [internal or external] is left alone to face the whole organisation which could make undertaking VFM audit investigations very difficult. "We [chief internal auditor at a Scottish local authority] had to have political support which had been lacking so far". The importance of having political support prior to any VFM audit engagement is considered to be the prime factor in the success of such audit investigation.

"Whatever form the constitutional or legal autonomy of an SAI [supreme audit institution] takes, it will be an empty shell without top government support. Under such circumstances, performance auditing will simply not get off the ground, especially if there are such barriers as inadequate budgets, resistance to audits, and indifference to audit recommendations." 3

(3) by not supporting and implementing the auditor's findings: This point shall be discussed later under factors affecting the successful implementation of the auditor's reports, and finally

(4) by blocking or not passing specific acts on VFM audits. This attitude shown by the elected officials could not only hinder the full adoption of the VFM audit in a specific organisation but it could also affect parts of the public sector. This case is clearly visible in one part of the UK public sector surveyed in this research where the governing body of the external auditors stated in their reply to this question that "... the lack of clear statutory remit is considered to be a significant constraint".

In addition, the table shows that nineteen percent and seventeen percent of the responses received from programme managers and external auditors respectively, indicate that VFM audit examinations cannot be fully carried out because of the lack of sound management information system. It is important to note that the type of information needed to perform VFM audit depends on the situation or activity under review, but generally speaking, four types of information are required for any VFM audit:

- (1) Financial information produced within the organisation and expected to be available from the financial accounts of these organisations.
- (2) Costs of providing services across organisations:
In the public health sector, for example, this type of information is made available in "The Blue Book" which is produced on a regional basis by the DHSS.
- (3) Performance indicators which are expected to be produced by the organisation itself, and finally
- (4) General information on the organisation to be audited. The researcher found from the interviews that information readily available for use in any audit investigation is very hard to find. In practice, data is made available by these organisations but it needs to be processed before it can be of use. Annual reports and Rating Review Publications, for example, are produced for a particular audience. The language and method of

presentation used, as well as the base for calculating or allocating costs are unlikely to be the same for every UK organisation. The information will probably not be in the form required by those who have to monitor the achievement of VFM in the organisation's operations or activities. In most cases the VFM auditor (internal or external) is faced with a lack of basic information. An external auditor said, "There wouldn't be a great deal of information even on the activity work-load side of it ...". While another external auditor said "it has proved very difficult to get the base data to enable comparison to be made."

Some comments were made by the respondents which indicated that there are other obstacles. Accordingly table (5A) shows a complete list of these comments. The discussion of these comments shall be organised under the following themes;

- (1) The lack of resources in general, and, in particular, the human and financial ones. The lack of resources not only affects the VFM audit programmes performed by the programme managers but also affects the external and statutory auditors as well,

"The Commission's [Commission for the local Authority Accounts in Scotland], own resources are, of course, limited and for this reason, among others, development of the audit has not been as rapid as we would have liked ...".⁴

Some additional obstacles identified through the
Questionnaire Survey

Lack of Manpower resources

Lack of finance due to central government restrictions

Lack of perceived needs at senior or official and elected
member level.

Lack of resources

Political and trade union views

Some doubts about its [VFM] value regarding
social works practice ... etc.

Source:

Replies of the UK organisations to
Question number five of the authorities
questionnaire set

Table 5A

(2) Table number (5A) shows that there are some officials who have not yet realised the usefulness of VFM audit investigation, and there are others who raise some doubts about the auditor's ability to perform this type of audit. Consequently, they expect there to be no need for their organisation to perform a VFM audit investigation, and finally

(3) The trade union movement and their representatives as a force blocking the introduction of VFM audit into all aspects of the UK organisations, especially if the VFM audit investigations could have an effect on the size of the work force. One of the chief internal auditors at a Scottish local authority admitted that his authority has no computer facilities because of the trade union opposition to the introduction of new technology.

Since VFM audit investigation is mainly concerned with replacing old out of data procedures with new and more advanced ones, such modernisation may well affect the size of manpower, therefore it is expected that trade unions will work against the introduction of VFM audit into public sector organisations. A possible solution to this obstacle has been suggested by an external auditor, namely that before any special study is done in any area, the external auditors should talk to the trade union representatives as "they are concerned about any study which has effects on manpower....".

Finally, it came up in one of the interviews that the budgetary system could be useful as a means to

motivate staff to undertake VFM audit. The present budgetary system of this health authority has found some answers to the question "why should people try to save money if they will not benefit by having saved that money?". The old tradition held that if a department saved money in a particular financial year, its budget was reduced in the following year which could be seen as a punishment, in effect for having achieved that saving. Nowadays, however, if a department saves money it generally gets some of it back to help in another area. By adopting this type of incentive the elected and executive officials in these organisations have created the motivation to undertake VFM audit investigations, which in turn, enhances the idea of VFM audit practice in the UK public sector.

6. Factors affecting the implementation of the VFM audit report:

The literature on auditing in general, and that dealing with audit reports in particular, deals with how the auditor's report should be written or presented. For example J.J.Glynn states that

"VFM reports should be fairly detailed, with individual sections that refer to the responsibilities of particular line managers together with an overall summary for senior officials, elected representatives etc." 5

The published literature does not deal with factors which could positively contribute to the implication of such reports. It is necessary to identify those factors. Table six shows the results of analysing the responses

6. What factors influence the successful implementation of VFM Audit report? You may choose more than one answer, when you do so, please rank your choice by entering (A) against the most important, (B) against the next important, and so on.											
Options	Programme Managers					Auditors					
	N.O.R.	T.W.R.	Mean	% T.W.R.	Rank	N.O.R.	T.W.R.	Mean	% T.W.R.	Rank	
The nature and character of the audit report itself	32	260	8.1	14.8	3	5	24	4.8	11.6	3	
The method of releasing the report such as press or media coverage	9	54	6.0	3.1	7	5	22	4.4	10.6	4	
The audit techniques or methodology applied during the course of the audit	16	112	7.0	6.4	6	5	24	4.8	11.6	3	
The interest and attitude of legislative and executive officials	43	373	8.7	21.2	2	8	54	6.8	26.1	1	
The timing or currency of the topic	23	186	8.1	10.6	5	5	22	4.4	10.6	4	
The initial choice of the programme or agency to be audited	27	233	8.6	13.3	4	4	15	3.8	7.2	5	
The nature of the findings and recommendations	45	412	9.2	23.5	1	7	41	5.9	19.8	2	
Others (please specify)	5	126	9.0	7.2	-	1	5	5.0	2.4	-	
Total	200	1756				40	207				

N.O.R. = Number of Response
T.W.R. = Total Weighted Response
% T.W.R. = Percentage of Total Weighted Response
* Weighting System: A = 7, B = 6, C = 5, D = 4, ... etc.

Table 6

from the auditors and programme managers. Concerning the choice of the "nature and character of the audit report itself" preference was shown for an auditors report that should be written clearly, simply, and unambiguously. The auditors should not use technical terms which most recipients of the audit reports find difficult to understand. In this regard, the table shows that this option has some effect on implementation of the auditor's report but not as much as was expected, since this choice is ranked third by both the external auditors and programme managers. Furthermore, the auditors' response indicates that this item has the same effect as the option "the audit techniques or methodology applied during the course of the audit".

On the other hand, the programme managers consider the audit techniques and methodology to have least effect, (they rank it sixth out of seven options), but according to them it still has a stronger effect on the implementation of the VFM audit report than "the method of releasing the report, such as press or media coverage". In addition, the table shows that the external and statutory auditors consider "the interest and attitude of legislative and executive officials" to have most effect on the implementation of their reports. This finding may reflect to some extent, the notion that the external and statutory auditors perform their audits on behalf of legislative or executive officials.

Auditors consider "the nature of the audit findings and recommendations" to have the second biggest effect on

the implementation of their report. Illustrating how the attitude of officials impedes implementation, one chief internal auditor of a scottish local authority tells of the council policy "of not making anyone redundant as long as that person is reasonably competent, ... quite a lot of people were, in effect, redundant, but the council would not make them redundant. They had to be kept on". These employees cannot be moved to different departments "... because nobody will agree to have them..... As a result it may take a little time to actually achieve savings...". The efficiency of the council would improve if it were possible to move such people into other departments where they could be of more use.

From these findings and the examples quoted above the researcher concludes that the support of top government officials and elected members plays a key role in implementing the VFM audit report, regardless of whether the audit is performed by internal staff or conducted by external and statutory auditors. The traditional duty of auditors is to ensure compliance with the law; the legislative and executive officials also have an interest in upholding the law; when they take into account the interest of these officials, the auditors in fact are ensuring adherence to the law. However, when the auditors discover that the elected or executive officials are pursuing policies contrary to the law then conflict occurs. The evidence shows that when conflict occurs the auditors stand by their findings, especially where there is clear legislation to support

their position, and they disregard the wishes of the elected or executive officials. To illustrate this finding, two cases were recently reported in the media, where the external and statutory auditors of two councils (Liverpool and Lambeth) took council officials to court, where subsequently the auditor's findings were implemented.

The result of analysing the responses from the programme managers reveal that the interest of the officials and the nature of the findings are considered to be the most effective factors, among the listed options, for implementation of the audit reports by this group. In the meantime this group's response indicates that "the nature of the audit findings and recommendations" have a bigger effect than the option of serving "the interest of the executive and elected officials". This may reflect the philosophy that "Performing good jobs will pay", but it seems uncertain that the internal staff in charge of performing VFM audit investigation are not in a strong enough position, compared with that of the external and statutory auditors of these organisations, to push hard for implementation of their findings. Consequently the internal staff have to depend on their recommendations alone to convince the recipients of their audit reports to act on their findings. It is not easy to decide which of the two options has the biggest effect on the implementation of the auditor's report. The researcher's opinion is that "the nature of the audit findings and recommendation" and

"the interest and attitude of the elected and executive officials" are equally important and have equal effect on how the auditor's report is implemented.

Table six also shows that "the initial choice of programme or agency to be audited" is ranked fourth by the programme managers, while it is considered by the auditors to be the least effective on the implementation of the VFM audit report and therefore ranked last. Therefore, it can be seen that the external auditors determine their audit plans and the scope of their VFM audit examinations with little or no interference by any person or authority. It is interesting to note that this interpretation accords with the results reported under question number two of the auditor's questionnaire.

The final choice "others", provided the researcher with two additional factors stated by the respondents of both groups surveyed. These factors are:

- (1) prior consultation/justification with client for audit review, and
- (2) the volume of other reports the department has to consider and implement i.e. if a department has to respond to a lot of reports they are less likely to implement.

The researcher agrees on the importance of prior consultation with the client as a factor which affects the implementation of the auditor's report. This practice of prior consultation does occur in other countries covered by this research project and proved to be useful. However the respondents did not make clear what was meant

by the second point; whether the number and size of report in question were solely audit reports or were other, general reports, which included the audit report. The researcher agrees that the auditor should determine the size and number of audit report to be submitted during any specific period. [For a full explanation of the researcher's opinion in this regard, please see chapter seven]. The timing of the submission of the auditor's report plays a key role, according to the respondent, in the implementation of these reports. The researcher agrees that this factor has importance but considers it to have less effect than the options mentioned above, (such as the interest and attitude of elected and executive officials" and "the nature of the audit findings and recommendations". The timing of submission of the audit report could be considered to have no effects where a strong, independent evaluator [i.e. internal specialised staff and/or external auditor] undertakes the VFM audit investigations.

7. The main sources for identifying objectives and performance criteria of the government programme.

Much of the literature of VFM auditing indicates that effectiveness review is the most difficult part of the VFM audit. The difficulty is due to the vagueness of the legislation out of which government programmes and systems are created, which makes any effort to determine the intention of the legislative officials very difficult.

No statement on how to measure output or performance is made. The researcher's intention is to find out the sources of information which could be used to indentify the relevant objectives, and the performance criteria to assess the output of these programmes. The results are shown in table seven.

The table indicates that both external auditors and internal staff in charge of performing VFM audit on behalf of the programme managers depend on the executive of the audited organisations, in the first instance, to provide information on their objectives and performance measurement criteria. Furthermore, the table shows a disagreement between the two groups surveyed over how important "the legislative statements relating to objectives and evaluation criteria" and the "programme personnel and staff" are as sources for obtaining the necessary information. The programme managers consider "the programme personnel and staff" to be the least important source of information, while considering "the legislative statements relating to objectives and evaluation criteria" to be the next most important source after the programme managers and executives. However, the external auditors consider the programme personnel to be a more important source of information than "the legislative statements relating to objectives and evaluating criteria".

Some of the respondents indicated that they depend on other sources to obtain necessary data, and these sources are:

7. What are the possible sources for identifying relevant objectives and criteria for assessing VFM in your authority? You may choose more than one answer. When you do so, please rank your choice by entering (A) against the most important, (B) against the next important and so on.											
	Programme Managers					Auditors					
	N.O.R.	T.W.R	Mean	% T.W.R.	Rank	N.O.R.	T.W.R	Mean	% T.W.R.	Rank	
Options											
Legislative statements relating to objectives and evaluation criteria	25	78	3.1	19.5	2	2	6	3.0	8.3	4	
Statements made by legislators or elected officials at hearing before legislative authority i.e., House of Commons, Local Councils	24	73	3.0	18.2	3	3	11	3.7	15.3	2	
Programme manager or executives	41	158	3.8	39.5	1	7	31	4.4	43.1	1	
Programme personal and staff	19	51	2.9	12.8	4	2	8	4.0	11.1	3	
Others (please specify)	14	40	2.9	10.0	-	4	16	4.0	22.2	-	
Total	123	400				18	72				

N.O.R. = Number of Response
T.W.R. = Total Weighted Response
% T.W.R. = Percentage of Total Weighted Responses

Table 7

- 1- The Audit Commission reports
- 2- Government proposals
- 3- The operation [performance] manager, and
- 4- Departmental Heads

The researcher believes that apart from the first two, these sources are included in the option "programme and staff".

It can be concluded from the responses received that all the listed options could be used as different sources of information. There are no rules to declare which source should be used under given circumstances and this is left to the knowledge and experience of the auditor.

8. Performance analysis and criteria:

Brian Marsden and Chris Leeland, state their opinion why performance measurement is important in the public sector, they state that,

"it is not difficult to recognise the need for performance review in local government. For many services there is a captive market and the client or customer has no option or choice. The expenditures involved are large, the quality of the services and the way in which they are delivered are of the utmost importance to many people, and there are often no ready measures of performance. Not only must every effort therefore be made to secure the most effective use of resources, but ratepayers have a right to know that their money is not being wasted." ⁶

Richard E. Brown and others, in their book "Auditing the performance of Government", justify the importance of studying performance measurement, especially when a new type of audit, i.e. operational or VFM audit, is performed by the auditors. They state that

"Unfortunately performance auditing [the term adopted by this research is operational auditing]... provides no consistent methodology or uniform technique that can be used to adequately assess public sector performance in a variety of settings"⁷

In an internal circular privately supplied by an audit department in one of the organisations in England, (The name cannot be revealed for reasons of confidentiality) the organisation not only outlines why it is important to find out more about this side of operational auditing but it also shows how difficult this issue is in practice....

"many public sector activities are not susceptible to such simple treatment, [input-output relation] since the quality of say service provision cannot be reflected in quantitative data - indeed the ultimate outputs themselves may be incapable of expression in quantitative terms..."

The circular continues to state that

"in practice many kinds of statistical/financial ratios can be developed which individually can only measure one aspect of the performance, but which collectively can give a picture of progress achieved...."

Since the field of performance measurement lacks standardised procedure and accepted performance criteria

"... The performance auditor, [operational auditing is the term adopted by this research project] must tailor the audit engagement by selecting from a myriad of available methodologies and techniques those several that are appropriate to the nature of the audited organisation's activities."⁸

It seems that this approach has been adopted by the National Audit Office, the then Exchequer and Audit Department (E&AD), whose approach is to tackle the measurement of performance

"with broad principles only at the outset, developing criteria for evaluation as we [E&AD officials] go along and tailoring them to the programme or project concerned".⁹

The lack of well-defined standards in this area makes the measurement of performance of organisations in the public sector difficult. It also makes it more difficult to decide on suitable criteria for measuring a particular performance, both in terms of number and combination of criteria needed for any single audit assignment. According to Henry Butt and Bob Palmer the auditors in local authorities are expected to use multiple criteria in a single audit assignment. They state

"that a set of not more than (6) key performance measures should be developed in the annual plan for each service covering economy, efficiency and also effectiveness".¹⁰

The researcher believes that questions eight and nine of the organisations' questionnaire complement each other and should therefore be discussed simultaneously. The aim of asking these two questions is to find out how the selected UK organisations measure their performance and what criteria they commonly use.

In question eight the programme managers are asked to indicate their approaches to measuring performance, while question nine asks which criteria they use in the process of measuring their performance. Table eight and nine respectively show the results of these two questions.

In general, table eight shows the unweighted total of responses to be one hundred and fifty-five, which is

8. Which of the following is your performance analysis normally compared with ? you may choose more than one answer, when you do so please rank your choice by entering (A) against the most important, (B) against the next important, and so on.					
Options	N.O.R.	T.W.R	Mean	% T.W.R.	Rank
Other selected authorities i.e. Local Authorities of similar character	52	182	3.5	38.1	1
Other selected individual facilities within your authorities	29	77	2.7	16.1	4
Performance in the previous years	43	131	3.0	27.1	2
Pre-determined standards	29	82	2.8	17.1	3
Others (please specify)	2	6	3.0	1.3	-
Total	155	478			
<p>N.O.R. = Number of Respondents T.W.R. = Total Weighted Responses</p>					

Table 8

two and a half times the number of respondents themselves [sixty-two], while table nine shows unweighted responses totalling one hundred and eighty nine, three times the number of respondents. This indicates that programme managers probably measure the performance of their organisations through at least two approaches and three performance criteria, on average, in every VFM audit examination.

Table eight shows that the approach of comparing the performance of the organisation under review with "other selected authorities, i.e. local authorities of similar character" was most often chosen, receiving thirty-eight percent of the total weighted responses.

The reason for this high percentage could be attributed to the availability of the mass of information and statistics about the activities of public organisations, i.e. spending levels and such. This information is either published by these organisations themselves, or made available by other independent bodies, such as CIPFA, LAMSAC and the Audit Commission in England and Wales. For example, the Audit Commission compiles information and statistics, both published and previously unpublished, on local authorities in England and Wales in a file called "Audit Profile" which is updated annually.

Measuring the performance of the organisation under review by following the approach for comparison with other organisations of similar character should be applied with great caution. In this regard Henry Butt and Bob Palmer state,

"it should be emphasised however, that comparison with outside sources, even with local authorities of similar demographic and economic background, need to be treated with caution".¹¹

Table eight shows the approaches of comparing the organisation's performance with their "Performance in the previous years" and with "Pre-determined standards" and these are ranked second and third, respectively. And finally, the table shows that the approach of comparing the performance of one division of a particular organisation with another in the same organisation is ranked last.

Table nine shows that the criteria "Unit cost" and

"Service expenditure level" are widely used in practice and came first. The criteria "Published Performance indicators" is ranked last [fifth] which indicates that this criteria is difficult to apply or that there may be a lack of these published indicators. According to one respondent, "Published performance indicators, [are] very rarely seen".

The researcher concludes from these two questions that:-

- (1) The UK organisations, in general, follow more than one approach in determining their performance but it seems that most compare their performance with organisations of similar character.
- (2) There are no generally accepted rules pertaining to the number of indicators used in every VFM audit investigation, and there is no optimal combination of these performance criteria. It seems that for each VFM audit investigation the number and combination of these performance indicators depend on the situation or activity under review

"The choice of performance indicators is likely to be greatly influenced by the ease of measurement. Where local authority facilities or services are open to use by all without charge, it may be extremely difficult and expensive to obtain regular information on their use by the population they serve. These problems of measurement can greatly restrict the choice of indicators and their ability to reflect the output being achieved".¹²

The most common performance criterion used in measuring the performance of UK organisations is the "Unit cost", closely followed, (less than two

percent behind), by the "service Expenditure level" criterion

(3) And finally, the researcher concludes that the UK organisations make maximum use of published statistics. The following quote shows how the published comparative statistics are used by local authorities, in the words of one chief internal auditor of a Scottish Local Authority,

"the idea of a bank charge has come from them [published comparative statistics].... they give you some idea what other authorities have managed to achieved..."

9. Which of the following indicators are used in the comparison mentioned in (8) above? You may choose more than one answer. When you do so, please rank your choice by entering (A) against the most important, (B) against the next important, and so on.

Options	N.O.R.	T.W.R	Mean	% T.W.R.	Rank
Service expenditure level	45	177	3.9	25.2	2
Usage of services or measures of client population served	39	151	3.9	21.5	3
Unit cost	43	179	4.0	25.5	1
Manpower level	34	102	2.9	14.6	4
Published performance indicators	25	81	3.2	11.6	5
Others (please specify)	3	11	3.7	1.6	-
Total	189	701			

Notes:
Weighting system A=5, B=4, C=3, ... etc.

Table 9

9. The Auditor's competence:

Extending the auditor's role to include the examination of the economy, efficiency and effectiveness with which any activity is performed has led some to question the auditor's competence to conduct VFM type of audit,

"auditors were trained accountants and did not stray very far from work directly related to financial matters and other work of accountants.... auditors today are confronted with analytical problems and subject matter that go far beyond what a standard accounting education equips them for ..."¹³

John Fielden adds his voice to those who doubt that the traditional auditors can deliver

"it will be difficult for audit staff, however intelligent, with little or no experience outside their profession to make reasonable value judgements or assessments about managerial capabilities or best practice in spheres outside their professional knowledge. Inevitably therefore, there is a risk that value-for-money auditing of this model could become formalised and many adopt a standard checklist approach".¹⁴

Such remarks have led to debate on the knowledge required by individuals intending to perform operational auditing. Jean-Pierre Bosicclair, while quoting a "well experienced comprehensive auditor," states that the

"Comprehensive auditors have the ability to convert raw data to information, then into knowledge and finally into wisdom if these audits are to prove beneficial. They must also have the ability to deal in areas where the traditional forms of audit evidence are either not available or not applicable and where the evidence gathering techniques are not the same".¹⁵

Bosicclair then goes on to decide what the specific knowledge is required for performing the comprehensive or

operational audit. He states that:

"Comprehensive auditors should have basic skills and disciplines- these ensure the integrity of the final audit product. The comprehensive auditor, however, is usually required to be more creative and have a broader, deeper knowledge of management, management systems and the forces at play in organizations that are crucial to the economically, efficient and effective attainment of goals".¹⁶

He ends his article by implying that not all financial auditors are well equipped to adopt to the new changes required to perform operational auditing and suggests that the answer to the auditor knowledge issues may be teamwork

"To date, experience has shown that relatively few financial auditors can adopt well to comprehensive auditing. A good estimate is that only 20% of those who have become involved have stayed involved in the comprehensive audit environment. Many, if not most comprehensive audits require multidisciplinary audit teams"¹⁷

John Fielden, not only shares Boscicclair's opinion that an audit team is the solution but also believes that without this approach

"it may not be possible to avoid the danger, which some observers have identified in Canada of comprehensive audit recommendations being mostly for improved controls, systems and check procedures".¹⁸

There are others who prefer the idea of an audit office whose staff have varied background and experience. Sir Douglas Henley the then C&AG is strongly in favour of an audit office having people with widely diverse subjects in their initial university training".¹⁹ Therefore the researcher felt a need to clarify this point and to find out which of the two approaches is

adopted in the UK public sector, by asking the respondents to give their opinion on "who should perform VFM audit. The results are presented in table ten.

10. In your opinion, who should perform VFM Audit?				
Options	Programme Managers		Auditors	
	T.R	% T.R	T.W..	% T.W.
A qualified Accountant	16	25.8	-	-
An audit team (please give the composition of the team)	46	74.2	10	100
Others (please specify)	.			
Total	62		10	

Table 10

The table shows that all the external and statutory auditors and almost seventy-five percent of the programme managers surveyed believed that the answer to this question is "An Audit Team". The remaining twenty-five percent of programme managers, sixteen in number, who completed the question believe that qualified accountants can perform VFM audit. The support for the audit team to carry out VFM audits accords with the opinion of the Canadian Comprehensive Auditing Foundation which states that

"the best solution often lies in a comprehensive audit team composed of outsiders as well as internal staff. Such a combination minimizes the familiarization

cost, facilitates the transfer of skills to the organisation's own personnel and enhances the audit's credibility in the eyes of the public".²⁰

Most of the respondents of both groups (auditors and programme managers) believe that the composition of the audit team depends on the scope of the audit exercise and the nature of the project under review. Some examples of the audit team given by the respondents are: "qualified accountants and professionals in the field to be reviewed", "multidisciplinary team, membership depending on project, typically - an accountant, a clinician, a nurse, a planner", [the respondent is from Health sector], "Qualified accountant, part-qualified accountant, trainee, specialist, particularly for capital and computer projects", and "accountant/economist, management services professional i.e. from service department". The researcher concludes that the audit team is mainly composed of an accountant, not necessary a qualified one, and specialist or technical staff in the area to be reviewed.

The principal auditor of a Scottish local authority sees that "a multidisciplinary team, is necessary for carrying out VFM audit work see the auditor in that role of ... only being an analytical mind to assist them [the rest of the team] in formulating their policies and putting forward certain ideas; of consolidating it in financial terms, where they [the rest of the team] might lack the expertise in that respect. But they would only work as a team". On the other hand, the role of the

specialist within the audit team was explained by one of the interviewees working within the health sector. The role of "the nurse seconded to the DHSS VFM audit project.... is to interpret what the auditor is saying to the nurses, interpreting what the nurses are saying to me [the auditor]...." This means that the specialist is a bridge of communication between the auditor and the staff of the organisation, helping the auditor to understand the technical aspects of the area under review and liaising with staff.

10. Needs for studying policy issues:

The main body of this question is designed to cover the following three themes:

Firstly, items A to E are designed to find out whether there is a need for study and review of the policy issues, by either the programme managers or the elected officials.

Secondly, items F and I in the auditors questionnaires only (these two items are missing from the organisations' copy because it is believed that the scope of the audit performed by internal staff could be largely influenced by decisions of the executive of the organisation concerned and therefore the situation could vary from one organisation to another which depends on the management's attitude and internal factors). The main aim of asking these questions is to isolate areas that the auditor is reluctant to examine and to see whether it is possible for him to disregard the policy issues while conducting

VFM audit investigations.

Finally, items "G and H" are concerned with finding out whether the auditor's report should contain recommendations pertaining to the problem identified by the auditor. The results for both groups [the external and statutory auditors and the programme managers] are shown in table eleven.

The overall trend of results pertaining to items "A and B" shows that both groups surveyed disagree with the statements made under these items. For example table eleven shows that fifty percent of the auditors and about sixty-one percent of programme managers believed that public officials (the executives of the audited organisation i.e. programme managers and the elected officials), would not only know if a particular programme was not working effectively but would also know which aspect of service should be postponed or curtailed and which has the least effect on the public.

The results of items "C and D" show that the two groups hold different opinions on these two items. The majority of the auditors surveyed, (forty percent each item), agree that the elected officials would not know if the programme managers had misinterpreted their aims or had ignored the legislative intent and had been pursuing their own goals. On the other hand the majority of the programme managers believe the reverse.

In addition, the results presented in the table indicate that both programme managers and the external and statutory auditors would disagree with the statement

11. To what extent do you agree with the following statements in relation to the present effectiveness audit situation in your authority? Please circle the appropriate number opposite each statement.

Statements	Programme Managers										Auditors									
	Complete Disagreement		Disagree		Do not Know		Agree		Fully Agree		Complete Disagreement		Disagree		Do not Know		Agree		Fully Agree	
	T.R.	% T.R.	T.R.	% T.R.	T.R.	% T.R.	T.R.	% T.R.	T.R.	% T.R.	T.R.	% T.R.	T.R.	% T.R.	T.R.	% T.R.	T.R.	% T.R.	T.R.	% T.R.
A. The programme manager would not know if the programme was not working effectively	12	19.4	38	61.3	5	8.1	6	9.7	1	1.6	0	0	1	1.6	0	0	1	1.6	0	0
B. The programme manager and elected officials would not know which aspect of a service should be postponed or curtailed with the least effect on the public.	8	12.9	41	66.1	4	4.5	9	14.5	0	0	1	10	5	50	0	0	1	10	0	0
C. The elected members would not know if the programme managers had misinterpreted their aims.	0	0	38	61.3	6	9.7	18	29	0	0	1	10	2	20	0	0	3	30	1	10
D. The elected members would not know if the programme managers had ignored the legislative intent and had been pursuing their own goals.	4	6.5	35	56.5	10	16.1	13	21	0	0	1	10	2	20	0	0	4	40	0	0
E. The elected members would not know if the need for a particular project or programme had disappeared.	3	4.8	30	48.4	7	11.3	20	32.3	2	3.2	1	10	3	30	0	0	3	30	0	0
F. It is very difficult for VFM auditor not to concern himself with the policy issues.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	0	0	3	30	0	0	5	50	0	0
G. The VFM auditor should recommend solutions to the problems as part of his report.	0	0	2	3.2	1	1.6	25	40.3	34	54.8	0	0	0	0	0	0	7	70	1	10
H. VFM auditors are always expected to submit detailed reports which, if properly implemented, could lead to possible improvements.	1	1.6	7	11.4	0	0	30	48.4	24	38.7	0	0	2	20	0	0	3	30	3	30
I. There are certain projects or aspects of a programme which you would be reluctant to examine.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1	10	5	50	1	10	0	0	1	10
If you agree please give some examples and explain your reluctance to examine them.																			

Table 11

made in item "E". The table shows that the majority of programme managers [more than forty-eight percent], and forty percent of the auditors believe that the elected members would know if the need for a particular project or programme had disappeared, while only thirty percent of the auditors and about thirty-five percent of the programme managers believe that the elected officials would not know.

With regard to items "G and H" the table shows an overall acceptance of both items by the programme managers and the external and statutory auditors. The table particularly shows that more than ninety-five percent of the programme managers and all external and statutory auditors, who answered item "G", agree that the VFM auditor should propose some solution and make recommendations, to problems identified in his audit report, as part of that report. Furthermore, the table shows that sixty percent of auditors, and about seventy-nine percent of programme managers agree that VFM auditors are always expected to submit detailed reports which, if properly implemented, could lead to possible improvements. However, the table shows only twenty percent of auditors and about eleven percent of programme managers disagree with the statement made in item "H".

Finally, the table shows, with regard to items "F and I", that fifty percent of the auditors believe it could be very difficult for the auditor performing VFM audit review not to concern himself with policy issues. In addition, the table shows that sixty percent of

auditors rejected the idea that there are certain projects or aspects of programmes that they would be reluctant to examine. In other words the majority of the auditors feel that they are ready to undertake any assignment and to examine any project or any issue connected with public programmes, and believe that it would be difficult for the auditor to complete his VFM investigation without touching upon the policy issues involved.

Three conclusions can be drawn from the results above;

- (1) The executives of the organisations surveyed believe that there is no need at all for reviewing public programme policies. The external and statutory auditors agree to this except in two cases, where it is believed that elected officials may not have adequate information on the existing circumstances in the audited organisations namely where the legislatures' aims are either misinterpreted or ignored. The researcher believes that whether or not the policy should be reviewed depends mainly on what the purpose of the VFM audit examination is in the first place. Thus there are no rules. The situation differs from one country to another, from one section of the economy to another.
- (2) It seems from the results that there are no areas where the auditors might hesitate to investigate or examine. Furthermore, it is difficult to decide where economy and efficiency examinations end and

where policy and effectiveness review begins.

- (3) The VFM auditors are expected to make recommendations about problems identified by them or presented in their reports. In addition, the audit recipients expect that the auditor's recommendations, if implemented properly, will lead to some changes.

11. Implementing and follow-up VFM audit findings:

As shown earlier in this section, most of the respondents of both groups surveyed in this research project indicated that the audit recipients always expect their auditors to submit detailed reports containing possible answers to problems they have identified. Developing proper recommendations is a difficult and costly process, efforts which would be wasted if they were not implemented whenever feasible, therefore it is important to know how often the VFM audit reports are implemented and whose responsibility it is to monitor this. This follow-up process is considered to be

"one of the most important aspects of the audit process [and its purpose] is to ensure that the agreed action plans are actually accomplished and provide the expected results." 21

A chief internal auditor at one of the Scottish local authorities explains how the follow-up process is performed in practice. "Our follow-up process starts with issuing the auditors report, where a piece of paper, "Action sheet", is attached to the back of the report. In that sheet we [the auditors] ask the person at whom the report is aimed to reply to our [the auditors']

recommendations by stating what action he has already taken and what further action he will be taking", thereafter, he signs the 'Action sheet' and returns it to us [the internal audit department]. When we go back to audit the same project or activity, then this 'Action sheet' is examined and compared with the new existing conditions to find out the actions taken on the previous audit report". An external auditor explaining how he monitors the implementation of his audit finding said "we usually attempt to obtain from the General Manager some form of action and we allow six months. At the end of six months we go back and review what we have done to see if they achieved anything. If he [General Manager] has done nothing, there will be an audit report qualifying the accounts".

The follow-up process is a characteristic of auditing in the public sector, while in the private sector, the auditor's role is completed after he delivers his annual report.

The analysis of responses given to questions twelve and thirteen of this questionnaire by both the programme managers and the external and statutory auditors and presented in tables twelve and thirteen respectively.

Table twelve shows that the majority of the respondents of both groups, (eighty percent of the auditors, and fifty-three of the sixty-two programme managers), indicated that their recommendations were "sometimes" implemented by the audited organisation, while one auditor and a further six programme managers,

(representing ten percent of both the auditors and programme managers) replied that their recommendations are acted upon "Everytime". Those remaining, ten percent of the external and statutory auditors and three programme managers indicated that their findings were "Rarely" implemented.

Table thirteen shows that the total number of responses indicated by the programme managers and the external and statutory auditors is eighty-five and fifteen respectively. This indicates again that more than one option was selected by both groups, showing that the responsibility for monitoring the implementation of the audit findings is a responsibility shared among different parties. Furthermore, the table reveals that more than fifty three programme managers and sixty percent of the auditors believe it to be the responsibility of the VFM auditor himself to monitor the action taken on his audit reports.

Table thirteen shows that twenty percent of the external and statutory auditors and twelve programme managers believe that this task is the duty of the elected officials".

Only sixteen of the programme managers and two of the external auditors see this responsibility as being that of the executives [programme managers] of the audited organisations.

Surprisingly, responses suggested that ratepayers and taxpayers have no role to play in monitoring the implementations of the auditor's report.

12. Your VFM Audit reports and recommendations are implemented				
Options	Programme Managers		Auditors	
	T.R	% T.R.	T.R.	% T.R.
Every time	6	9.7	1	10
Sometimes	53	85.5	8	80
Rarely	3	4.8	1	10
Never implemented (please state the reason/s)	0	0.0	0	0
Total	62		10	

Table 12

13. Whose Task is it to check the implementation of the VFM auditors recommendations?						
Options	Programme Managers			Auditors		
	T.R	% T.R.	Rank	T.R.	% T.R.	Rank
The VFM Auditor himself	43	50.6	1	9	60	1
Elected Officials	12	14.1	3	3	20	2
Rate payers, taxpayers and public at large	2	2.4	4	0	0	-
Project or programme manager	16	18.8	2	3	20	2
Others (please specify)	12	14.1	-	-	-	-
Total	85			15		

Table 13

From this question the researcher concludes that

- (1) The VFM audit reports prepared by either external and statutory auditors or programme managers, contain recommendations to alleviate problems identified by the group who performed the audit,
- (2) The task of monitoring the implementation of the auditor's reports is the duty of the individual(s) who carried out the VFM audit investigations (i.e. the VFM auditor himself).
- (3) Taxpayers, ratepayers and the public at large play no role in monitoring the auditor's recommendations. This means that this group is either passive and is not willing to play any role in the follow-up process, or that this group is ignored by programme managers.

The analysis of the auditors' replies:

Questions two, three, four, five, seven, eight, ten and eleven are common to both questionnaires and have already been analysed in the previous section, with the programme managers' replies.

1. Types of Audit performed by the external and statutory auditors:

The opening question in the auditors' questionnaire is concerned with identifying type(s) of audit performed by the external and statutory auditors of the UK organisations. Table fourteen shows the results of the replies received in response to this question.

1. Which of the three elements does your audit normally include? you may choose more than one answer:		
Options	T.R	% T.R*
Financial and regularity audit	10	100
Efficiency and economy audit	10	100
Effectiveness audit	6	60
Total Respondents in Ten		
Note: %T.R = Percentage of the total response is calculated for each type of audit separately.		

Table 14

The results reveal that all the respondents, without exception, perform the first two types of audit, "financial and regularity audit" and "efficiency and economy audit". Only sixty percent of those auditors also perform the effectiveness type of audit. According to some of the interviewees, the reason that such a large number do not perform this type of audit is due to the following:

(1) The lack of a clear statement of objectives:

"In the case of most local authorities it has... not politically been appropriate to State what their objectives are... so you would rarely find in the local authority a clear statement of quantifiable objectives".

(2) The lack of necessary information:

"There would not be a great deal of information even on the activity work-load side of it, [for example]..... the number of meals provided for, the number of meals that are taken up...."

(3) The lack of measures of effectiveness:

"it is difficult to see, in certain areas, how you [The Public] are satisfied with the service..... e.g. in education, what is the measure there?. How do we know we are being effective?..... In areas such as education, social work, the police....there are no measures of effectiveness".

(4) The lack of performance measurement criteria:

"To the best of my knowledge, [An external Auditor speaking], there is no thoroughly accepted measure of performance.... in education and social work.... statistics of pupil/teacher ratios and case loads for the social work give no measure of the requirement involved."

The interviews revealed that in England and Wales audit efforts are divided between the three types as follows:

"In the bigger audit, probably about fifty percent of the time would be [spent] on the value for money type of work [efficiency, economy and effectiveness] and fifty percent on opinion type audit [financial and regularity audit]. In smaller audits it is probably thirty percent value for money".

While in Scotland;

"The auditor's effort is directed to straightforward regularity audit, investigation of systems, primarily financial systems; verification of financial accounts, effort expended is somewhere between sixty-five to eighty percent ... The Commission expects that the remaining twenty percent of the auditor's efforts to be devoted to the three "Es" aspects of the value for money."

And in the DHSS hardly any distinction is made between the three types but "the emphasis is on the three 'Es' basically".

After a thorough investigation of the responses received for this question, the researcher found that the remaining four of the external and statutory auditors who

do not perform the effectiveness audit mainly came from one of the three sectors, [Local authorities in Scotland, Local authorities in England and Wales and the Health sector]. In a situation such as this, unknown reasons may exist for not performing this part of VFM audit investigations. The researcher discussed this issue with the External Auditor who replied to this questionnaire on behalf of all external and statutory auditors responsible for auditing organisations in this sector. He declared that the Audit Act does not outline either directly or indirectly auditors' duties and responsibilities in performing VFM audits in general or effectiveness audit in particular. In other words, "The lack of statutory remit is the major factor behind our [The External Auditor Speaking], decision to concentrate on efficiency and economy rather than effectiveness." The researcher pointed out that there are many people who believe that a more liberal interpretation of some sections of the Act, applied to this sector could permit the performance of this type audit. This External Auditor replied that the statute is an important element in the performance of VFM audit investigations because "the auditor may come up against barriers from time to time" when his intentions are questioned. He feels that, as an auditor, "you shall have some statutory backing for what you are doing". The consequence of this lack of statutory remit, according to this external Auditor, is that the auditors in this sector are "obliged to take a fairly low key approach to it because we [auditors working in this sector] have

never been certain how far we could go before the shutters are clamped down on us". Another external auditor replied in an interview that the external auditors in his sector "do not try to distinguish between them", [economy, efficiency and effectiveness]. It seems that this view is not limited to the external audit practices but it is also adopted by some of the internal specialised units. A chief internal auditor at one of the Scottish Health Boards states that there they ".... do not take them individually [the three Es] and look specifically for those three aspects but we [internal audit section] would hope that we will be covering those three points".

Evidence does exist which shows that the UK organisations perform effectiveness audit investigation, though not on a regular basis. Two examples were mentioned by the interviewees, where VFM audit investigations led council officials at one Scottish authority to change policies. In the first case, the Council had a policy of collecting payments of Rates in ten instalments. After the system of collecting "Rates" was examined under VFM audit the council officials changed their policy to collecting in two instalments. In the other case a VFM audit changed one educational department's policy at one of the Scottish local authorities. The policy of making "Bursary Payment for the Further Education Students" in ten instalments during the course of the year was changed instead to two annual instalments. From interviews, the researcher uncovered

the following :

(1) Regarding the number of VFM audit projects undertaken by the external and statutory auditors: compared with the commission for local Authority Accounts in Scotland and the DHSS the Audit Commission is the most active institution, having completed more than ten VFM Special Studies "Yellow Book Reports" by the end of February 1986. By the same date the Commission for local Authority Accounts in Scotland and the DHSS had each finished three projects.

(2) Regarding the number of VFM audit projects completed by the internal staff of the selected UK organisations:

The staff of those organisations who took part in the interviews revealed that on average each organisation had completed only two projects by the end of February 1986.

(3) Regarding the systematic coverage of the activities of the public organisations.

Generally speaking, the VFM audit projects completed so far were successful. However, the researcher believes that their findings could have been more effective in terms of better returns and higher benefits if these projects had been related to each other in a more systematic way to provide better coverage of the activities of the audited organisations.

(4) Regarding VFM audit investigations and the audited activities: It seems to the researcher that the activities audited so far have been those in the

soft areas, i.e. Refuse collection, Purchasing, Parking Meters....etc. While those activities in sensitive areas of public organisations have been either completely neglected or have been softly handled, such as the "over-lap of shifts" in the DHSS audit projects or the number of payment instalments, in the case of the education department. The VFM auditor in these cases could have produced better projects yielding higher benefit if they had examined more sensitive issues. For example, in the education department case the auditor could have questioned other alternatives available to the Council for financially supporting students rather than concentrating their scope of investigations on the number of instalments.

It could be concluded from this question that all the external and statutory auditors of the organisations in the three selected Public sectors perform "financial and regularity audits" and "economy and efficiency audits" while "effectiveness audits" are performed by only two of the three. In these two sectors external auditors and internal staff do not try to distinguish between the three "Es", perhaps aspects of these three main components of VFM audit overlap, making it very difficult to draw lines between them.

2. Approaches to the performance of VFM audits:

Some relationship between the VFM audit approach adopted by the external or statutory auditor and the

remit given to him in the statute was expected. The USA GAO, for example, has the full backing of legislation to question the government's objectives and policies and to receive requests for audit assignments from members of both Houses of Legislation. Most of the GAO's audit work is therefore characterised by "Short and Concise" investigations in a single government programme or agency. In other cases it consists of in-depth, detailed investigations into all aspects of a given government programme or project (vertical approach). However, since the situation in the UK public sector differs from that in the USA, one would expect that the British approach would be different.

The purpose of asking the question is to find out the most common approach followed by the UK organisations. The results are presented in table fifteen.

The respondents replied to this question by selecting more than one option, which they ranked in order of preference. The table confirms the earlier expectation of the existence of some differences between the UK VFM audit approach and the US GAO comprehensive audit approach, but the results unexpectedly showed no similarities in approach whatever.

It is interesting to note from the table that "Selective investigation" approach and "An-indepth and detailed investigation into one aspect of the authority's (organisation's) work across several authorities" [horizontal approach], are the two most common approaches

followed by the external and statutory auditors of the UK organisations. This finding accords with the description of the work of the commission for Local Authority Accounts in Scotland given by J.W.Troman. Troman states that the Commission's approach

"will involve indepth investigation into the control of expenditure, costs, etc of one aspect of a local government activity carried out simultaneously at a number of authorities" 22

These two approaches are followed simultaneously by the external and statutory auditors thus:

- (1) The auditors arrange with the general manager a meeting to look at all levels of management and the way it operates.

6. What is your approach to the performance of vfm audit?					
Options	T.R	T.W.R	Mean	%T.W.R	Rank
An indepth and detailed investigation into one aspect of the authority's work (horizontal approach)	4	9	1.5	23.7	2
An indepth and detailed investigation into all aspects of a programme or project (vertical approach)	4	8	2.0	21.1	3
A short and concise investigation	4	8	2.0	21.1	3
Selective investigation	7	13	1.8	34.2	1
Others (please specify)	1	2	2.0	5.3	--
Total	20	40			
Notes: Weighting system: A=4, B=3, C=2 and D=1					

Table 15

- (2) Questionnaires are then used at management level, and open discussion takes place with operational staff.
- (3) The results of the discussion are then cleared with the operating manager.
- (4) The results of the questionnaires are used to pinpoint areas worth investigating.
- (5) The investigation is carried out.
- (6) A conclusion is reached .
- (7) Options to increase the VFM are prepared.
- (8) Another discussion is held with the operating manager.
- (9) The auditors prepare a draft report, of which the general manager receives a copy.
- (10) The auditors then transfer responsibility to the operating manager who takes over the audit itself. The external auditors simply answer any question and monitor both the organisation's actions and results.

The "Audit Commission in England and Wales", the "Commission for Local Authority Accounts in Scotland" and the DHSS Audit Offices at their headquarters carry out central studies covering a single aspect of an activity across several organisations to identify best practice. For example, the Audit Commission in England and Wales, report the results of their exercise in "the Yellow Report", which recommends procedures and methodology to any one interested (i.e. external and statutory auditors of any UK public organisation). Topics include "Saving energy in local government buildings", "Reducing the

costs of local government purchases", "Achieving better value for money; Non-teaching costs in secondary schools", "Obtaining better value from further education" and "Securing further improvements in refuse collection". A copy of these reports can be obtained from the Audit Commission in England and Wales or the HMSO.

Table fifteen shows that the options "An-indepth detailed investigation into all aspects of a programme or project" and "A short and concise investigation" were chosen least often, each being selected by twenty-one percent of the respondents and ranked third. This finding may be attributed both to the environment in the UK public sector, where resources in terms of staff and finance are in short supply, and to the attitude of elected and executive officials. (For details of such obstacles, see the analysis of question number four above).

According to John Fielden, there are risks associated with a short and concise VFM audit investigation, namely;

"rejection by those reviewed on the grounds of shallowness or naivety, rejection by staff because of nonconsultation and nonparticipation, and rejection by the ultimate client if major savings are not produced ..."²³

The following can be concluded:

- (1) Sticking to a single approach could be difficult if not impossible and could hinder the performance of the VFM audit investigation.
- (2) There is no specific VFM audit approach applicable at

all times and under any circumstances, therefore the appropriate approach depends on the activity to be reviewed and objectives of the VFM audit itself. The Audit Commission in England and Wales believe that the best way of achieving value for money in local authorities in England and Wales is through disseminating information on comparative studies. Therefore the best approach would be the horizontal approach. This has been confirmed by the results of this questionnaire survey, and finally

- (3) The horizontal approach seems to be the most appropriate method to VFM audit, under conditions which exist in the UK public sector; such as, that the auditor must not directly comment on the policy issues of the audited organisations, the lack of qualified staff and the shortage of VFM fund.

3. The lack of information and the auditor's role.

This question (question number nine of the auditors' questionnaire) is closely related to question number four above and to questions five, eight and nine of the organisations' questionnaire. Here it was found that the lack of management information systems is considered an impediment to the full adoption of the VFM audit in some UK organisations. The respondents indicated that they measure performance of the audited organisations by using some performance criteria, even although the literature on performance measurement in the public sector shows how difficult it is to measure the performance of a public

organisation, a difficulty which is attributed to the lack of appropriate performance indicators or the fact that "it may be difficult, if not impossible, to obtain quantitative measures of the absolute value of the output being achieved".²⁴ Therefore, the aim in asking this question was to explore how the auditor proceeded under the circumstances described in the five cases listed under this question. Three possible options are available for the respondent to choose from. These reflect the philosophical approach of the auditor arising from his perceived role and his state of independence. This state of independence is made up of his actual independence and the appearance of independence he may have. The researcher shall use this philosophical approach to interpret the findings of this question.

Cases A to D of this question deal with situations where the management information system is either not up to a standard to produce routine information, or is up to a standard but not producing the information necessary for the performance of VFM audit.

Case 'E' of this question is concerned with the action taken by auditors where performance indicators are lacking. The results of analysing the answers given by the respondents are presented in table sixteen.

The researcher would like to clarify one point before proceeding; some respondents selected two alternative answers to each question, for instance, choosing either option one or option three. Multiple answers have been accepted as part of this research and

9. How would you proceed, as VFM auditor in the following cases?. Please circle the appropriate number, opposite each case. These numbers indicate.

1. Work with the management and generate the needed information.
2. Draw the programme manager's attention to the situation.
3. Ask the programme manager to provide you with the needed data.

Cases	(1) % A	(2) % A	(3) % A
A. The lack or shortage of routinely reported information or management covering the results of programme operations.	25	50	25
B. Encountered a programme with a management information system that does not generate data appropriate for measuring programme performance.	25	65	10
C. Encountered a programme with a management information system that does not produce reliable data.	35	55	10
D. Encountered a programme with a management information system that produced a vast amount of cumbersome data.	20	65	15
E. Encountered a programme without performance indicators.	35	55	10

Note:
% A = Average percentage.

Table 16

average percentages have been calculated for them.

The table shows, with regard to case "A", that fifty percent of the external auditors would draw the programme manager's attention to the lack of routinely reported information for management, covering the results of programme operations. Only twenty-five percent of the respondents ask the programme manager to provide them with the necessary data. The remainder replied that they would work with the management to generate such data.

In cases "B" to "E", the table shows that on average thirty-three percent of the respondents would work with the management to generate information for their audit assignments, but the majority said they would simply draw to the management's attention the matters described in these cases. A smaller number of the respondents [between ten to fifteen percent indicated that they would proceed by asking the management to provide them with the necessary information for their VFM audit investigations.

These results can be interpreted thus:

- (1) The majority of the respondents consider their role to be one of simply pinpointing where deficiencies in the system do, or are highly likely to, occur. This group values equally both parts of their state of independence and considers that their responsibility ends with the identification of the problem.
- (2) A small number of respondent believe their role is not only to criticise the system but also to specifically ask for material which would enable

them to complete their audit assignments. This helps the management by directing them toward what they need rather than leaving them to guess how to satisfy or correct the situation. In this group the auditors pay less attention to the appearance of independence by involving themselves in directing the organisation towards a possible solution, and finally,

- (3) Around a third of the respondents see their role as not only pinpointing the deficiencies, but also as working with the management to correct the situation. These auditors fulfill the role of any consultant who may be called in to assist management in determining practical solutions for the problems reported by the organisation's auditor. The respondents in this group place great importance on the first part of their state of independence while they may neglect the second part, (the appearance of independence). This may reflect the adoption of the American definition of the auditor's independence as being an "attitude or state of mind".

So one can conclude that:

- (1) There is no single answer as to how the auditor would proceed in circumstances such as those described in these cases.
- (2) The majority of external auditors responding narrowly defined their audit role and put great emphasis on both sense of their independence.
- (3) The findings of point two above, together with the

results of the question on the major obstacles facing external auditors may well, explain why the number of VFM audit projects completed so far by these bodies is small.

4. The auditor's role in implementing his VFM audit findings:

The results of question number eleven, discussed in the previous section, (the analysis of the programme managers replies), showed that the task of monitoring the implementation of the VFM audit reports rests mainly with the VFM auditor himself. Therefore it seems important to find out what role the auditor may play in the process leading to a successful implementation of the audit findings. The alternative actions which might be taken by any auditor vary from one extreme, where the auditor enforces his findings on the officials of the audited organisations to another, where the auditor passively leaves it to the management to decide what to do with his findings. Between these two extremes lie two other courses of action available to the auditor. The first involves discussing his findings with the management and executives of the audited organisation, to convince them of the efficacy of acting upon his audit recommendations. The second course would be to use the same tactics with the elected officials at the audited organisation. These courses of action can be pursued simultaneously, but the researcher preferred not to list them as alternative options because it was expected that some respondents

would choose this middle course rather than trying to identify the usual procedures followed by them. In addition, the researcher's aim was to find out which of the two lines of action is the more common in practice. It was expected that some replies would indicate both, and it was felt that if this were the case, the researcher would accept these replies as a part of his research project. The complete results for this question are presented in table seventeen.

12. What role do you play as VFM auditor in implementing your VFM audit findings?		
Cases	N.R	%
1. Enforce your findings.	0	0
2. Discuss and convince the programme manager of the usefulness of your findings.	3	30
3. Discuss and convince the elected officials of the usefulness of your recommendations.	2	20
4. Discuss and convince the elected members and the programme manager of the usefulness of your audit recommendations.*	4	40
5. It is completely up to the authority and you have no role to play in implementing findings data.	1	10
Total	10	100
Note: N.R = Number of response * This case was not listed in the original copy of the questionnaire.		

Table 17

The table shows that thirty percent of the overall respondents indicated that their role in implementing their audit findings is to discuss with and convince the programme managers of the usefulness of their recommendations, but only twenty percent indicated that they would approach the elected officials in this way. Furthermore, the table shows that forty percent of the auditors, would pursue both the above lines of action together. The remaining ten percent indicated that they would leave it to the management of the audited organisation to decide on the appropriate action to be taken.

From the results of this question the researcher concludes the following:

- (1) The first option under this question, which states that the auditor's role is to enforce his findings on the programme managers of the audited organisations, has not been selected by any of the respondents. This shows that this type of action seldom, if ever, occurs, which in turn, implies that the external and statutory auditors are not in a strong enough position to dictate to management.
- (2) It is not the auditor's responsibility to enforce his findings on the executive officials of the audited organisations; but it is his duty to see that his audit findings have been acted upon. For example, in certain cases the external and statutory auditor(s) may take the executive officials of an audited organisation to court, where there is considered to

have been a breach of the law. However, according to an external auditor, "The auditor cannot take this line of action when his VFM audit findings are not implemented, and furthermore he cannot qualify his reports because of the failure of the executive to act upon the VFM audit report".

- (3) It is the management responsibility to ascertain that the auditor's VFM findings have been thoroughly considered and acted upon accordingly, while the auditor's role is limited, in practice, to explaining and discussing his recommendations with the executive, and/or elected, officials of the audited organisations. In the words of an external auditor interviewed for this research project, the auditor's role is "Essentially to discuss and convince executive officials and elected members of the usefulness of his findings". The same role is also played by the internal VFM audit staff. A chief internal auditor at a Scottish local authority saw himself and his staff to be "in an advisory capacity here [at the authority]". Having no authority to enforce audit findings, although he "would try to persuade them [the executives and management] that our [auditors'] point of view was a good idea".
- (4) David Dewar in his paper "Current practice in the UK: Central Government" which was presented in a seminar organised by Peat, Marwick, Mitchell and Co., explains how important the auditor's role is to the successful completion of any VFM audit assignment.

He states that VFM audit performed, and results reached, by National Audit Office.

"may stand or fall by the extent to which we can convince the audited department that our analysis, judgement and recommendations are sound. This is the acid test." 25

The idea, held by some, that the audit and auditors are the "fourth Power" can be rejected, as point one above shows the auditors to be without the power to enforce their own findings.

5. The availability of the VFM audit report

The existing evidence necessitates the making available of VFM audit reports to ratepayers, taxpayers and the general public at large. Such evidence is:

- (1) Section seventeen of the local Government Finance Act 1982 entitles the interested person to inspect local government accounts to be audited and to question the auditor on them, while section twenty-four of the same Act gives the electors the right to inspect and make copies of the local authority's accounts and the auditor's reports on them.
- (2) Since ratepayers, taxpayers and the general public are considered to be the providers of the financial resources necessary for the government's activities, they should, at least, be entitled to receive a copy of the public organisation's financial accounts and statements, and the auditor's report pertaining to them. According to Brian Marsden and Chris Leeland "... ratepayers have a right to know that their

money is not being wasted".²⁶

The researcher's aim in asking question number thirteen [of the auditors' questionnaire] is to find out whether VFM audit reports are made available to members of the public [ratepayers, taxpayers...etc.] and if this is so, what sort of response the external auditors receive from the public, and specifically, whether the response is positive or negative. The researcher posed the question "As a VFM auditor, are your audit findings made available to the general public?" and "if yes, is the response generally positive or negative?". The results are presented in table eighteen.

13. As a VFM Auditor, are your audit findings made available to the general public?			
Yes	5	No	4
			1 Could be made available
If yes is the response generally			
Positive	5	Negative	-

Table 18

This table shows that half of the respondents, [five in number], replied that their audit reports are made available to the public. Forty percent of the respondents replied that their reports are not made available; and the remaining ten percent replied that their "VFM audit findings could be made available it depends on the circumstances", [no further details were given which could identify and understand these circumstances.

As the table shows, the five respondents whose findings are seen by the public generally receive a positive response. As a matter of fact the researcher received copies of special VFM audit studies reports from external auditors as well as from several chief internal auditors at the Scottish authorities. However access was denied to the external auditor's VFM audit reports pertaining to individual authorities. One of the external and statutory auditors replied to the researcher's request with "ALL OUR [THEIR] REPORTS ARE COVERED BY THE OFFICIAL SECRETS ACTS", while another two asked the researcher to put his question directly to the organisations themselves. Such practice was expected, as Robert Harding supports this sort of practice.

"Copies of the audit report are given to the auditee and the more senior line management to which they report and the president. Except for these recipients, the audit report is not distributed without the specific approval of the auditee. Every attempt is made to ensure that the report remains confidential".²⁷

When the researcher approached some of the local authorities and health boards to provide him with a copy of their external auditor's report the request was turned down on the basis of the confidentiality of these reports.

By relating the findings of this question to those explained earlier, especially for number eleven of this set and number one of the organisations' set, the researcher concludes that VFM audit practice in the UK is not directed towards strengthening the accountability

relationship in the Health and Local authorities.

This conclusion confirms the researcher's earlier expectations that the introduction of VFM audit investigations in local and health authorities is mainly intended to be used to achieve economy and efficiency in the operations of these two sections of the UK public sector. In other words, it was not the intention of the government in introducing VFM audit examination into the health and local authorities to strengthen the accountability relationship between the public officials and their electors.

Some General views on the UK VFM audit approach:

Working from the results of the questionnaires and from the personal interviews with external auditors and internal staff, the researcher will detail, in this section, his views on how VFM audit is practised in the UK health and local authorities.

In chapter four of this research project it was shown that any VFM audit assignment could be composed of three parts, namely "economy, efficiency and effectiveness" abbreviated to be the 3"Es". It seems that the UK approach to VFM audit is mainly concerned with economy and efficiency, while effectiveness review is performed by only half of the external and statutory auditors. Furthermore, where the effectiveness part is performed, auditors usually do not try to distinguish it from the economy and efficiency review. This failure to distinguish between the three parts has led some to

conclude that external auditors in the UK public sector do not perform effectiveness review.

"Until recently the emphasis in the UK in value for money auditing has been on economy and efficiency..... It may only be a matter of time before such evaluation [effectiveness or programme reviews] are carried out in public sector organisations in the UK....".²⁸

With regard to the area of activities subjected to in the VFM audit investigations, UK auditors, both internal as well as the external and statutory auditors, tend to concentrate their scope of examination on non-sensitive areas which are easy to assess;

"it is noticeable that the majority of VFM reviews carried out in the public sector so far have been directed at fairly non-contentious areas such as purchasing and stores, transport and energy costs.....".²⁹

According to David Dewar the VFM audit investigations are not necessarily carried out separately from the financial and regularity audit. He states that,

"Our VFM work is not specifically segregated from our certification audit of accounts or from our regularity audit of such matters as statutory provisions and conditions of grants.... This does not mean that VFM is always pursued simultaneously with other audit work, many exercises are carried out separately".³⁰

As evidenced in the literature, and as American and Swedish experience shows, most of the government programmes and activities have no statements of objectives and performance criteria. Whenever these do exist, they are presented in a vague and ambiguous way, which does not enable the auditor to utilize them properly, consequently it is important to know the sources used by the British auditors for determining

performance criteria and objectives of government programmes, whenever the effectiveness of these programmes are reviewed. To this end, it seems that "Legislative statements relating to objectives and criteria" and "Programme Personnel and Staff" are used less often than the "Programme managers and executives" and "Statements made by legislators or elected officials at hearings before legislative authority i.e. House of Commons, Local Councils" as sources.

The main reason for introducing value for money to the UK health and local authorities is to investigate ways of identifying areas where savings can be made, or where high costs may be cut, or where waste and extravagance can be reduced. VFM audit is also performed by some UK organisations for the purpose of strengthening the managerial control systems by identifying defects in these monitoring systems. In addition, a small number use VFM audit for the purpose of strengthening the external accountability relationship. The researcher expects that the internal accountability relationship (within the audited organisation) would also improve as a result of VFM audit investigations. Reason for conducting a VFM audit other than those mentioned in the questionnaire were also found. The following are two examples:

- (1) To help the staff gain some practical experience in the audited areas and,
- (2) To motivate the audited staff

The US GAO has determined a procedural approach for indentifying areas or activities for VFM audit

investigations. This can come through requests made by congressmen, or starting with a piece of legislation and working through a particular government activity, or determining how important a given activity or programme is to society or the National Economy. In the UK, it would seem, from remarks such as "the auditor uses his nose" or "the auditor uses or applies common sense" that there is no common, generally accepted procedure for indentifying the major sources for VFM audit investigations, however the interviews with some of the external auditors and internal staff of the UK organisations revealed that the following exist as sources:

- (1) The report published by the Audit Commission in England and Wales on their central special studies.
- (2) Personal preference of the auditor himself as an individual or as a firm.
- (3) The organisation itself and what it wants done. According to an external auditor, the auditor, "talks with the executives and asks them whether they have any particular concern".
- (4) Audit Profile prepared by the Audit Commission in England and Wales.
- (5) Extracts of accounts and estimates from the organisations "the selection of the authorities which we look at is done on the basis of analysis of costs of at least three years..."
- (6) The organisation chart assists in identifying the main functions of the audited organisation by

pointing out areas of high expenditure and service for the auditors to review

- (7) Areas with high costs and a high potential for savings.
- (8) Areas identified as a by product of performing financial and regularity audit.

A respondent from a Health Board in England adds;

"Only when we are satisfied that the major systems are secure can we reasonably turn our attention to VFM audits. I would add that... a significant amount of valuable VFM work flows from normal probity auditing provided that audit staff are constantly aware of VFM opportunities within their probity work"

Where the VFM audit examinations are carried out by the external and statutory auditors the scope of such examinations is determined solely by those auditors, while for internal auditing staff the executive and senior officials of the organisation determine their VFM audit scope although the external auditor also has some say in the area of the performance of VFM audit investigations. According to a chief internal auditor at a Scottish local authority, the external auditors occasionally may ask internal staff to include certain VFM audit projects in their annual audit plans because the external auditors "are not going to be able to look at a certain area".

VFM audit investigations in any particular organisation are carried out most commonly on an ad hoc basis, though more than one basis is generally used. In the UK health and local authorities VFM audit is rarely

done on a one-off basis.

External and statutory auditors mainly adopt two different approaches for their investigations. The first consists of an in-depth, detailed investigation into one aspect or activity, which is carried out simultaneously across several organisations for the purpose of identifying the best practice in that selected area or activity. This type of investigation demands huge resources in human and financial terms. Consequently, VFM audit investigations carried out in accordance with this approach are expected to be performed by the central governing body in the health and local authorities such as the Audit Commission in England and Wales, the DHSS Audit Office, and the Commission for local Authority Accounts in Scotland. Furthermore, where this approach to VFM audit is carried out in the UK, one would expect that it is performed on a regular basis.

The second approach to performing VFM audit examinations is that "selective investigations" which is adopted by individual external and statutory auditors. Normally, individual auditors performing selective VFM audit investigations are guided by the reports published on best practice, the "Yellow Reports" prepared and made available by the central body. The researcher expects that this approach is performed on an ad hoc basis and is usually directed towards examining a particular activity of a single organisation. One would expect that the VFM audit investigations performed by the internal staff are carried out on the basis of "selective investigation"

drawn from the "Yellow Report".

Measuring performance in the public sector is more difficult than in the private sector since most public organisations render services rather than goods, the latter being easier to measure in terms of output. In addition, such services are unique, in that they are rarely provided by private organisations, making comparison of services impossible. Pricing is problematic here too, as the services provided by public organisations are not intended to be profit-making but are provided for social and political motives, which makes measuring the performance not only difficult but perhaps undesirable, since proof of any failure to achieve the intended results would be used by the opposition parties to criticise the government and attack its policies.

These difficulties are compounded by the absence of generally accepted approaches and criteria for assessing the performance of these organisations. However, in the case of the UK organisations surveyed in this research, more than one approach to analysing performance is adopted. The organisation's performance is compared both to that of selected organisations of similar character and also to its own performance in previous years.

Approaches used least often in the UK are the comparison of one unit with another within the same organisation, and the use of "a pre-determined standard" to compare present performance.

In connection with these approaches, the UK

organisations utilize various performance criteria. Most widely used are "Unit costs" and "Service expenditure level", while other criteria such as "Manpower level" and "Published performance indicators" are used least often. The researcher expects that the main reason for such infrequent use of pre-determined standards and published performance indicators may be attributed to the absence of such standards and indicators.

The internal arrangements for performing VFM audit investigations differ from one organisation to another, but in the main most of the UK organisations surveyed in this research either delegate responsibility for performing VFM audit to the "internal audit department" or seek the assistance of their external auditors. It seems that UK organisations prefer not to depend on temporarily employing specialised staff to conduct VFM audit investigations. Furthermore, both the internal audit staff and the external and statutory auditors of the UK organisations mainly depend on an audit team with a multidisciplinary background as a means of broadening the base of knowledge required for performing this type of audit.

The audit team is mainly composed of auditors and technical experts. The auditor(s) is considered to be the core of the team, but he need not necessarily be a qualified accountant. The area or activity under examination governs the number of technical experts and their field of specialisation.

The existence of obstacles such as "the lack of

qualified and competent staff", "the lack of resources especially financial ones", "the lack of the necessary data for VFM audit examinations", "the lack of support of the elected members and top executive officials", and "the negative attitude of the representatives of the labour and union movements" have seriously hindered the rapid extension of VFM audit examinations in the UK public sector, consequently VFM audit examinations are carried out on an ad hoc basis. Furthermore, these constraints lead the external auditors and internal VFM audit staff to concentrate on areas where results can be achieved easily and quickly.

Some of the above-mentioned impediments and conclusions have also been observed by members of the "Advisory Committee on Local Government Audit". Their report states that, "there are not enough auditors to undertake regular investigations into efficiency among all local government services".³¹ Furthermore, the Committee reports that in the fiscal year 1977-78 "Practical constraints prevented a major increase in value for money studies".³²

The available literature on auditing non-financial activities, and particularly on VFM audit, describes the steps through which any VFM audit assignment may proceed, up to the submission of the auditor's report. However the literature does not cover what then happens to the report nor whose responsibility it is to check whether the audit report received adequate attention from recipients. The evidence shows that in practice in the UK it is the VFM

auditor's role to monitor the implementation of his report through the "follow-up" stage. Here the auditor checks whether the audit findings have been properly acted upon. Some respondents indicated that this check on the implementation of the audit reports should be left to the executive and management of the audited organisations or to the elected officials and that the auditor should not be responsible for overseeing what happens to his reports. Furthermore, the evidence gathered for this research project shows that the auditor is in no position to force his audit findings on the management or the executive officials of the audited organisation. His role with regard to overseeing the implementation of his audit report is limited to persuasive discussion with executive officials, programme managers and elected members.

The evidence on hand reveals that the majority of the auditors find their VFM audit reports are only "sometimes" acted upon, while only a small number are "always" implemented. A similarly small number of audit reports are "rarely" adopted by the audited organisations. This may lead one to ask why some audit reports are always implemented, while others are rarely implemented. The evidence in practice within UK health and local authorities shows that factors such as "the nature of the audit findings and recommendations" and "the interest and attitude of legislative and executive officials" are considered to have the biggest effect on convincing the audit recipient of the usefulness of the audit findings. "The nature and character of the audit

report itself" has less effect and "the method of releasing the audit report i.e. press or media coverage" is considered to have the least effect on whether the audit report is implemented or not. Swedish experience shows that the press and media tend to concentrate on the negative issues raised by the auditor's report and to neglect the positive steps taken to remedy the situation. This results in the executive officials of the audited organisation being put on the defensive, and may encourage them to be non-co-operative regarding future VFM audit investigations.

Other factors such as "the audit techniques or methodology applied during the course of the audit", "the timing or currency of the topic" and "the initial choice of programme or agency to be audited" have some influence on whether or not the audit report is implemented, but the degree of their effect, according to evidence, differs from one group of audit recipients to another.

It seems that the decision to make available the VFM audit reports to ratepayers, taxpayers, the general public and interested parties other than the executive and elected officials of the audited organisation depends largely on the type of audit report. Three cases exist in practice:

(A) Special study reports, (Yellow Reports):

These reports are normally prepared by the central governing bodies of the external auditors, and can be obtained without difficulty. The researcher believes that

the central bodies have chosen the right tactics to achieve their objective of disseminating ideas or good practices by undertaking these studies and publishing the report.

(B) VFM audit report prepared by external auditors on individual organisations:

This type of report shows the auditor's VFM audit findings applied within a particular public organisation, as opposed to the previous type of report, which shows a summary of the findings of several individual VFM audit projects performed at various public organisations.

Sections seventeen and twenty-four of the Local Government Finance Act 1982, require that the audit report be made available to the general public for a limited period of time. The Act defines the auditor's report as a public document but it is unfortunate that the section on making audit reports available only applies to the financial and regularity audit and does not cover the VFM audit.

(C) VFM audit report prepared by internal staff:

This type of report shows the results of VFM audit examinations carried out by the specialised internal staff of a particular public organisation. On the basis of evidence available, (Two organisations of four reacted favourably to the researcher's request for a copy of the VFM audit report prepared by their internal staff), it appears that it is at the discretion of the organisation

itself whether or not to make available these reports. This leads one to conclude that this part of VFM audit is also affected by the lack of generally accepted practices, with regard to publishing the VFM audit report. The VFM audit reports prepared by external and statutory auditors of the UK public organisations are not made available, either by the audited organisation or by their external auditor, to the general public.

Some concluding remarks:

There follows some general comment which does not necessarily apply to the whole of the UK public sector, but is certainly applicable to the health and local authorities to a large extent.

Evidence gathered by means of the questionnaire survey and personal interviews indicates that:

- (1) There is an urgent need to strengthen VFM audit practices in the three selected sections of the UK public sector surveyed in this research by means of;
 - (A) Making available more resources, both human and financial, to both the internal VFM audit specialised staff and the external auditor.
 - (B) Speeding up the promulgation of the audit act to provide legislative backing for the performance of VFM audit, and
 - (C) More support being given to both internal VFM audit specialised staff and external auditors by the executive and elected officials "which has been lacking so far"

- (2) It is considered that performing VFM audit investigations on an ad hoc basis is a good enough practice, but it would be better if these investigations become part of the routine monitoring system and were carried out on a regular basis. In other words, VFM audit investigations could be more effective if these investigations become the core of management monitoring systems. The researcher expects that this point cannot be realised unless moves are made to overcome the existing obstacles.
- (3) it seems that there is a need for extending VFM audit examinations beyond the non-contentious areas or programmes, such as purchasing and refuse collection, to cover the effectiveness with which public programmes are carried out.
- (4) For the purpose of better structuring and uniformity of VFM audit practices in the selected sections of the UK public sector, the central government bodies of the external and statutory auditors must develop standardised VFM audit methodologies and must require their auditors and appointed private accounting firms to apply these methodologies whenever it is practical to do so.
- (5) In order to strengthen the accountability relationship and to enable public organisations to exchange experiences in VFM audit practices, the results of the VFM audit investigations, should be made available to ratepayers, taxpayers and the general public. The results of the questionnaire

show a positive response from these people regarding published audit reports.

Generally speaking the introduction and operation of any system to the public sector at an inappropriate time or place, (Public programme or government unit), may kill off that system in its infancy, as happened to the Zero Base Budgeting System, (ZBBS), and Programme Planning Budgeting System, (PPBS). Therefore the researcher asked five of the interviewees for their opinion on future trends for VFM audit practice in the UK public sector, whether they expected that VFM audit would be accepted and performed regularly as financial and regularity audits are or would VFM audit face the same end as ZBBS and PPBS.

One interviewee thought that "Once the present Tory government goes the VFM audit would go with it". The four remaining, however, believed that VFM audit would survive although it might not continue to receive the publicity it has had lately. They justified their beliefs by the following:

- (1) "Any administrative [executive branch of the government] would be interested to see that money is collected and spent wisely"
- (2) Unless government activities are fully automated and computerised there will be a need for VFM audit to improve such activities, according to a chief internal auditor at a Scottish Local Authority,
"we [the officials of the Council] are going to have a substantial finance department for along time to come and there will always be

a place for VFM audit. If they ever did get to the point where everything was done by computer.... then the need for VFM studies would probably decrease significantly. But as long as you are dealing with people there will always be a need for value for money studies"

- (3) And finally, in answer to the possibility that auditors may run out of topics for their VFM audit examinations, one external auditor put forward the option that the central body which he represents "can go back to the original ones [topics] and do them again."

APPENDIX

A copy of the Questionnaire which was sent
to Programme Managers.

1. WHAT IS (ARE) THE MAIN REASON(S) FOR ADOPTING VFM AUDIT BY YOUR AUTHORITY (ORGANISATION)?

- TO SHOW DEFECTS IN YOUR OWN MANAGEMENT AND CONTROL SYSTEMS -----
- TO HELP IN STRENGTHENING THE DEPARTMENTAL MANAGEMENT AND CONTROL SYSTEMS -----
- TO INVESTIGATE WAYS FOR SAVING MONEY, INCREASING INCOME AND COMBATING WASTE AND EXTRAVAGANCE -----
- TO HELP IN MEETING THE NEEDS OF TAXPAYERS, RATEPAYERS AND ELECTED OFFICIALS TO OBTAIN SPECIFIC AND SOUND INFORMATION ABOUT THE EFFECTIVENESS, QUALITY AND EFFICIENCY OF THE AUTHORITY'S PERFORMANCE. -----

2. YOUR SYSTEM OF CARRYING OUT VFM AUDIT IS ON:

- A REGULAR BASIS -----
- AN AD HOC BASIS -----
- ONE-OFF BASIS -----

3. WHICH OF THE FOLLOWING IS RESPONSIBLE FOR CARRYING OUT VFM AUDIT IN YOUR ORGANISATION?

- INTERNAL AUDIT DEPARTMENT -----
- MANAGEMENT SERVICE AND OPERATIONAL RESEARCH UNITS -----
- EXTERNAL AUDITORS IE. DISTRICT AUDITORS AND C & AG'S STAFF -----
- SPECIALISED AND EXPERIENCED STAFF IN VFM AUDIT TEMPORARILY EMPLOYED BY THE ORGANISATION -----
- VFM AUDIT COMMITTEE -----
- OTHERS (PLEASE SPECIFY) -----
-
-

4. WHO DETERMINES THE SCOPE OF VFM AUDIT IN YOUR AUTHORITY?

- EXTERNAL AUDITOR -----
- ELECTED OFFICIALS -----
- PROJECT OR PROGRAMME MANAGER -----
- OTHERS (PLEASE SPECIFY) -----
-
-

5. WHAT, IF ANY, ARE THE MAJOR OBSTACLES OBSTRUCTING A FULL ADOPTION OF VFM AUDITS IN YOUR AUTHORITY? YOU MAY CHOOSE MORE THAN ONE ANSWER. WHEN YOU DO SO PLEASE RANK YOUR CHOICE BY ENTERING (A) AGAINST THE MOST IMPORTANT, (B) AGAINST THE NEXT IMPORTANT AND SO ON.

- LACK OR SHORTAGE OF WELL QUALIFIED AND COMPETENT STAFF -----
- ATTITUDES OF ELECTED OFFICIALS AND PROGRAMME MANAGERS -----
- LACK OF SOUND MANAGEMENT INFORMATION SYSTEMS -----
- OTHER OBSTACLES (PLEASE SPECIFY) -----
-
-

6. WHAT FACTORS INFLUENCE THE SUCCESSFUL IMPLEMENTATION OF VFM AUDIT REPORTS? YOU MAY CHOOSE MORE THAN ONE ANSWER, WHEN YOU DO SO, PLEASE RANK YOUR CHOICE BY ENTERING (A) AGAINST THE MOST IMPORTANT, (B) AGAINST THE NEXT IMPORTANT, AND SO ON.

- THE NATURE AND CHARACTER OF THE AUDIT REPORT ITSELF _____
- THE METHOD OF RELEASING THE REPORT SUCH AS PRESS OR MEDIA COVERAGE _____
- THE AUDIT TECHNIQUES OR METHODOLOGY APPLIED DURING THE COURSE OF THE AUDIT _____
- THE INTEREST AND ATTITUDE OF LEGISLATIVE AND EXECUTIVE OFFICIALS _____
- THE TIMING OR CURRENCY OF THE TOPIC _____
- THE INITIAL CHOICE OF PROGRAMME OR AGENCY TO BE AUDITED _____
- THE NATURE OF THE FINDINGS AND RECOMMENDATIONS _____
- OTHERS (PLEASE SPECIFY) _____
- _____
- _____

7. WHAT ARE THE POSSIBLE SOURCES FOR IDENTIFYING RELEVANT OBJECTIVES AND CRITERIA FOR ASSESSING VFM IN YOUR AUTHORITY? YOU MAY CHOOSE MORE THAN ONE ANSWER. WHEN YOU DO SO PLEASE RANK YOUR CHOICE BY ENTERING (A) AGAINST THE MOST IMPORTANT, (B) AGAINST THE NEXT IMPORTANT AND SO ON.

- LEGISLATIVE STATEMENTS RELATING TO OBJECTIVES AND EVALUATION CRITERIA _____
- STATEMENTS MADE BY LEGISLATORS OR ELECTED OFFICIALS AT HEARINGS BEFORE LEGISLATIVE AUTHORITY IE. HOUSE OF COMMONS, LOCAL COUNCILS _____
- PROGRAMME MANAGER OR EXECUTIVES _____
- PROGRAMME PERSONNEL AND STAFF _____
- OTHER SOURCES (PLEASE SPECIFY) _____
- _____
- _____

8. WHICH OF THE FOLLOWING IS YOUR PERFORMANCE ANALYSIS NORMALLY COMPARED WITH? YOU MAY CHOOSE MORE THAN ONE ANSWER. WHEN YOU DO SO PLEASE RANK YOUR CHOICE BY ENTERING (A) AGAINST THE MOST IMPORTANT, (B) AGAINST THE NEXT IMPORTANT, AND SO ON.

- OTHER SELECTED AUTHORITIES IE. LOCAL AUTHORITIES OF SIMILAR CHARACTER _____
- OTHER SELECTED INDIVIDUAL FACILITIES WITHIN YOUR AUTHORITY _____
- PERFORMANCE IN THE PREVIOUS YEARS _____
- PRE-DETERMINED STANDARDS _____
- OTHERS (PLEASE SPECIFY) _____
- _____
- _____

9. WHICH OF THE FOLLOWING INDICATORS ARE USED IN THE COMPARISON MENTIONED IN (8) ABOVE? YOU MAY CHOOSE MORE THAN ONE ANSWER. WHEN YOU DO SO, PLEASE RANK YOUR CHOICE BY ENTERING (A) AGAINST THE MOST IMPORTANT, (B) AGAINST THE NEXT IMPORTANT, AND SO ON.

SERVICE EXPENDITURE LEVEL _____

USAGE OF SERVICES OR MEASURES OF CLIENT POPULATION SERVED _____

UNIT COST _____

MANPOWER LEVEL _____

PUBLISHED PERFORMANCE INDICATORS _____

OTHERS (PLEASE SPECIFY) _____

10. IN YOUR OPINION, WHO SHOULD PERFORM VFM AUDIT?

A QUALIFIED ACCOUNTANT _____

AN AUDIT TEAM (PLEASE GIVE THE COMPOSITION OF THE TEAM) _____

OTHERS (PLEASE SPECIFY) _____

11. TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENTS IN RELATION TO THE PRESENT EFFECTIVENESS AUDIT SITUATION IN YOUR AUTHORITY? PLEASE CIRCLE THE APPROPRIATE NUMBER OPPOSITE EACH STATEMENT.

STATEMENTS	COMPLETE	DISAGREE	DO NOT	AGREE	FULLY
	DISAGREEMENT		KNOW		AGREE
	1	2	3	4	5
A- THE PROGRAMME MANAGER WOULD NOT KNOW IF THE PROGRAMME WAS NOT WORKING EFFECTVELY.	1	2	3	4	5
B- THE PROGRAMME MANAGER AND ELECTED OFFICIALS WOULD NOT KNOW WHICH ASPECT OF A SERVICE SHOULD BE POSTPONED OR CURTAILED WITH THE LEAST EFFECT ON THE PUBLIC	1	2	3	4	5
C- THE ELECTED MEMBERS WOULD NOT KNOW IF THE PROGRAMME MANAGER HAD MISINTERPRETED THEIR AIMS	1	2	3	4	5
D- THE ELECTED MEMBERS WOULD NOT KNOW IF THE PROGRAMME MANAGERS HAD IGNORED THE LEGISLATIVE INTENT AND HAD BEEN PURSUING THEIR OWN GOALS.	1	2	3	4	5
E- THE ELECTED MEMBERS WOULD NOT KNOW IF THE NEED FOR A PARTICULAR PROJECT OR PROGRAMME HAD DISAPPEARED	1	2	3	4	5
G- THE VFM AUDITOR SHOULD RECOMMEND SOLUTIONS TO THE PROBLEMS AS PART OF HIS REPORT	1	2	3	4	5
H- VFM AUDITORS ARE ALWAYS EXPECTED TO SUBMIT DETAILED REPORTS WHICH, IF PROPERLY IMPLEMENTED, COULD LEAD TO POSSIBLE IMPROVEMENTS.	1	2	3	4	5

12.YOUR VFM AUDIT REPORTS AND RECOMMENDATIONS ARE IMPLEMENTED

EVERY TIME _____
SOMETIMES -----
RARELY -----
NEVER IMPLEMENTED (PLEASE STATE THE REASON/S) _____

13.WHOSE TASK IS IT TO CHECK THE IMPLEMENTATION OF THE VFM AUDITORS RECOMMENDATIONS?

THE VFM AUDITOR HIMSELF _____
ELECTED OFFICIALS _____
RATE PAYERS, TAXPLAYERS AND PUBLIC AT LARGE _____
PROJECT OR PROGRAMME MANAGER _____
OTHERS (PLEASE SPECIFY) _____

A copy of the Questionnaire which was mailed to
The Statutory and External Auditors.

1. WHICH OF THE THREE ELEMENTS DOES YOUR AUDIT NORMALLY INCLUDE? YOU MAY CHOOSE MORE THAN ONE ANSWER:

FINANCIAL AND REGULARITY AUDIT _____
EFFICIENCY AND ECONOMY AUDIT _____
EFFECTIVENESS AUDIT _____

2. WHO DETERMINES THE SCOPE OF THE VFM AUDIT ?

EXTERNAL AUDITOR _____
ELECTED OFFICIALS _____
PROJECT OR PROGRAMME MANAGER _____
OTHERS (PLEASE SPECIFY) _____

3. WHAT FACTORS INFLUENCE THE SUCCESSFUL IMPLEMENTATION OF VFM AUDIT REPORTS? YOU MAY CHOOSE MORE THAN ONE ANSWER, WHEN YOU DO SO, PLEASE RANK YOUR CHOICE BY ENTERING (A) AGAINST THE MOST IMPORTANT, (B) AGAINST THE NEXT IMPORTANT, AND SO ON.

THE NATURE AND CHARACTER OF THE AUDIT REPORT ITSELF _____
THE METHOD OF RELEASING THE REPORT SUCH AS PRESS OR MEDIA COVERAGE _____
THE AUDIT TECHNIQUES OR METHODOLOGY APPLIED DURING THE COURSE OF THE AUDIT _____
THE INTEREST AND ATTITUDE OF LEGISLATIVE AND EXECUTIVE OFFICIALS _____
THE TIMING OR CURRENCY OF THE TOPIC _____
THE INITIAL CHOICE OF PROGRAMME OR AGENCY TO BE AUDITED _____
THE NATURE OF THE FINDINGS AND RECOMMENDATIONS _____
OTHERS (PLEASE SPECIFY) _____

4. WHAT, IF ANY, ARE THE MAJOR OBSTACLES OBSTRUCTING A FULL ADOPTION OF VFM AUDITS IN THE AUTHORITY (ORGANISATION) AUDITED BY YOU? YOU MAY CHOOSE MORE THAN ONE ANSWER. WHEN YOU DO SO PLEASE RANK YOUR CHOICE BY ENTERING (A) AGAINST THE MOST IMPORTANT, (B) AGAINST THE NEXT IMPORTANT AND SO ON.

LACK OR SHORTAGE OF WELL QUALIFIED AND COMPETENT STAFF _____
ATTITUDES OF ELECTED OFFICIALS AND PROGRAMME MANAGERS _____
LACK OF SOUND MANAGEMENT INFORMATION SYSTEMS _____
OTHER OBSTACLES (PLEASE SPECIFY) _____

5. WHAT ARE THE POSSIBLE SOURCES FOR IDENTIFYING RELEVANT OBJECTIVES AND CRITERIA FOR ASSESSING VFM IN THE AUTHORITY (ORGANISATION) AUDITED BY YOU YOU MAY CHOOSE MORE THAN ONE ANSWER. WHEN YOU DO SO PLEASE RANK YOUR CHOICE BY ENTERING (A) AGAINST THE MOST IMPORTANT, (B) AGAINST THE NEXT IMPORTANT AND SO ON.

LEGISLATIVE STATEMENTS RELATING TO OBJECTIVES AND EVALUATION CRITERIA _____

STATEMENTS MADE BY LEGISLATORS OR ELECTED OFFICIALS AT HEARINGS BEFORE LEGISLATIVE AUTHORITY IE. HOUSE OF COMMONS, LOCAL COUNCILS _____

PROGRAMME MANAGER OR EXECUTIVES _____

PROGRAMME PERSONNEL AND STAFF _____

OTHER SOURCES (PLEASE SPECIFY) _____

6. WHAT IS YOUR APPROACH TO THE PERFORMANCE OF VFM AUDITS?

AN INDEPTH AND DETAILED INVESTIGATION INTO ONE ASPECT OF THE AUTHORITY'S WORK (HORIZONTAL APPROACH) _____

AN INDEPTH AND DETAILED INVESTIGATION INTO ALL ASPECTS OF A PROGRAMME OR PROJECT (VERTICAL APPROACH) _____

A SHORT AND CONCISE INVESTIGATION _____

SELECTIVE INVESTIGATION _____

OTHERS (PLEASE SPECIFY) _____

7. IN YOUR OPINION, WHO SHOULD PERFORM VFM AUDIT?

A QUALIFIED ACCOUNTANT _____

AN AUDIT TEAM (PLEASE GIVE THE COMPOSITION OF THE TEAM) _____

OTHERS (PLEASE SPECIFY) _____

8. TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENTS IN RELATION TO THE PRESENT EFFECTIVENESS AUDIT SITUATION IN THE AUTHORITY AUDITED BY YOU PLEASE CIRCLE THE APPROPRIATE NUMBER OPPOSITE EACH STATEMENT.

STATEMENTS	COMPLETE	DISAGREE	DO NOT	AGREE	FULLY
	DISAGREEMENT		KNOW		AGREE
	1	2	3	4	5
A- THE PROGRAMME MANAGER WOULD NOT KNOW IF THE PROGRAMME WAS NOT WORKING EFFECTVELY.	1	2	3	4	5
B- THE PROGRAMME MANAGER AND ELECTED OFFICIALS WOULD NOT KNOW WHICH ASPECT OF A SERVICE SHOULD BE POSTPONED OR CURTAILED WITH THE LEAST EFFECT ON THE PUBLIC	1	2	3	4	5
C- THE ELECTED MEMBERS WOULD NOT KNOW IF THE PROGRAMME MANAGER HAD MISINTERPRETED THEIR AIMS	1	2	3	4	5
D- THE ELECTED MEMBERS WOULD NOT KNOW IF THE PROGRAMME MANAGERS HAD IGNORED THE LEGISLATIVE INTENT AND HAD BEEN PURSUING THEIR OWN GOALS.	1	2	3	4	5
E- THE ELECTED MEMBERS WOULD NOT KNOW IF THE NEED FOR A PARTICULAR PROJECT OR PROGRAMME HAD DISAPPEARED	1	2	3	4	5
F- IT IS VERY DIFFICULT FOR VFM AUDITOR NOT TO CONCERN HIMSELF WITH THE POLICY ISSUES.	1	2	3	4	5
G- THE VFM AUDITOR SHOULD RECOMMEND SOLUTIONS TO THE PROBLEMS AS PART OF HIS REPORT	1	2	3	4	5
H- VFM AUDITORS ARE ALWAYS EXPECTED TO SUBMIT DETAILED REPORTS WHICH, IF PROPERLY IMPLEMENTED, COULD LEAD TO POSSIBLE IMPROVEMENTS.	1	2	3	4	5
I- THERE ARE CERTAIN PROJECTS OR ASPECTS OF A PROGRAMME WHICH YOU WOULD BE RELUCTANT TO EXAMINE	1	2	3	4	5

IF YOU AGREE PLEASE GIVE SOME EXAMPLES AND EXPLAIN YOUR RELUCTANCE TO EXAMINE THEM.

9. HOW WOULD YOU PROCEED, AS VFM AUDITOR IN THE FOLLOWING CASES? PLEASE CIRCLE THE APPROPRIATE NUMBER, OPPOSITE EACH CASE. THESE NUMBERS INDICATE

- 1- WORK WITH THE MANAGEMENT AND GENERATE THE NEEDED INFORMATION
- 2- DRAW THE PROGRAMME MANAGER'S ATTENTION TO THE SITUATION
- 3- ASK THE PROGRAMME MANAGER TO PROVIDE YOU WITH THE NEEDED DATA.

- A- THE LACK OR SHORTAGE OF ROUTINELY REPORTED INFORMATION FOR MANAGEMENT COVERING THE RESULTS OF PROGRAMME OPERATIONS 1 2 3
- B- ENCOUNTERED A PROGRAMME WITH A MANAGEMENT INFORMATION SYSTEM THAT DOES NOT GENERATE DATA APPROPRIATE FOR MEASURING PROGRAMME PERFORMANCE 1 2 3
- C- ENCOUNTERED A PROGRAMME WITH A MANAGEMENT INFORMATION SYSTEM THAT DOES NOT PRODUCE RELIABLE DATA 1 2 3
- D- ENCOUNTERED A PROGRAMME WITH A MANAGEMENT INFORMATION SYSTEM THAT PRODUCED A VAST AMOUNT OF CUMBERSOME DATA. 1 2 3
- E- ENCOUNTERED A PROGRAMME WITHOUT PERFORMANCE INDICATORS 1 2 3

10. YOUR VFM AUDIT REPORTS AND RECOMMENDATIONS ARE IMPLEMENTED

- EVERY TIME _____
- SOMETIMES _____
- RARELY _____
- NEVER IMPLEMENTED (PLEASE STATE THE REASON/S) _____

11. WHOSE TASK IS IT TO CHECK THE IMPLEMENTATION OF YOUR VFM AUDIT RECOMMENDATIONS?

- THE VFM AUDITOR HIMSELF _____
- ELECTED OFFICIALS _____
- RATE PAYERS, TAXPAYERS AND PUBLIC AT LARGE _____
- PROJECT OR PROGRAMME MANAGER _____
- OTHERS (PLEASE SPECIFY) _____
- _____
- _____
- _____

12. WHAT ROLE DO YOU PLAY AS VFM AUDITOR IN IMPLEMENTING YOUR VFM AUDIT FINDINGS?

- ENFORCE YOUR FINDINGS _____
- DISCUSS AND CONVINCE THE PROGRAMME MANAGER OF THE USEFULNESS OF YOUR FINDINGS _____
- DISCUSS AND CONVINCE THE ELECTED OFFICIALS OF THE USEFULNESS OF YOUR RECOMMENDATION _____
- IT IS COMPLETELY UP TO THE AUTHORITY AND YOU HAVE NO ROLE TO PLAY IN IMPLEMENTING FINDINGS _____

13. AS A VFM AUDITOR, ARE YOUR AUDIT FINDINGS MADE AVAILABLE TO THE GENERAL PUBLIC?

- YES NO
- IF YES IS THE RESPONSE GENERALLY
- POSITIVE? NEGATIVE?



University
of Strathclyde

M Desmond Fitzgerald: Ernst & Whinney Professor of Finance
Christopher W Nobes: Professor of Accounting, and Head of Department
Peter F Pope: Touche Ross Professor of Accounting

Department of Accounting and Finance

Curran Building
100 Cathedral Street
Glasgow G4 0LN Tel: 041-552 4400

Dear

I am currently involved in research into auditing in the public sector with particular reference to value for money auditing, under the supervision of Mr David Lyall at the University's Department of Accounting and Finance.

I should be most grateful if you were able to assist me in my research by completing the attached questionnaire and returning it to me at the address below. A stamped addressed envelope is enclosed for your reply.

Your reply will be treated in the strictest confidence. The results will be useful in helping to decide whether a VFM audit system could be successfully applied by the Kuwait Audit Bureau.

Yours sincerely

Ali Nemeh
PhD Research Student
140 Ivanhoe Road
Cumbernauld
Glasgow G67 4BB

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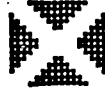


University
of Strathclyde

Peter F Pope: Touche Ross Professor of Accounting and Head of Department

STRATHCLYDE BUSINESS SCHOOL
Department of Accounting and Finance

Curran Building, 100 Cathedral Street, Glasgow G4 0LN
Tel: 041-552 4400 Ext 3889/3939 Telex: UNSLIB 77472



A Division of the Scottish Business School

AN/GB

16 January 1986

I McLellan Esq
Depute Controller of Audit
(Value for Money)
The Commission for Local Authority
Accounts in Scotland
18 George Street
EDINBURGH EH2 2QU

Dear Mr McLellan

I spoke to you in December in connection with my questionnaire on VFM auditing and you were kind enough to telephone my supervisor, Mr David Lyall, at the University about it, and offered to meet me to discuss the replies to the questionnaire.

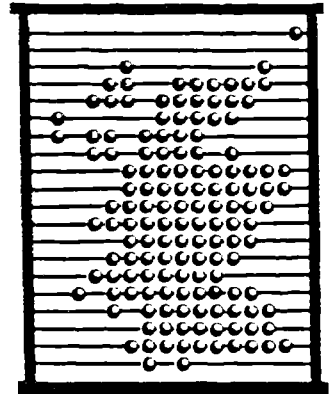
I would like very much to take up your offer and I wondered if it would be possible to visit your office sometime during the week beginning 3 February to discuss the matter fully.

Yours faithfully

Ali Nemeah

27 January 1986

Mr Ali Neme
Department of Accounting & Finance
University of Strathclyde
Curran Building
100 Cathedral Street
GLASGOW G4 0LN



COMMISSION FOR LOCAL AUTHORITY
ACCOUNTS IN SCOTLAND

Dear Mr Neme

Thank you for your letter of 23 January.

I would be happy to discuss the VFM questionnaire with you and would suggest 10.00am Tuesday, 18 February 1986 as a suitable time and date.

Please ring me to confirm that this is suitable for you.

Yours sincerely

I McLELLAN
Depute Controller of Audit
(Value for Money)

C C O U N T S C O M M I S S I O N
CHIEF OF AUDIT'S OFFICE 13 GEORGE STREET EDINBURGH EH2 2GU TELEPHONE 031 226 7346

THE FINANCIAL PROFESSION PSMA CONTROL OF PUBLIC FINANCE

Coopers
& Lybrand

Chartered accountants

Kintyre House
209 West George Street
Glasgow G2 2LW
Telephone 041-248 2644
Cables CoLybrand Glasgow
Telex 779396
Fax groups 11/111 041 221 8256

a member firm of
Coopers & Lybrand (International)

our reference

A Nemeq Esq
140 Ivanhoe Road
Cumbernauld
GLASGOW
G67 4BB

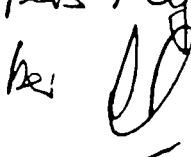
20 December 1985

Dear Sir,

VFM AUDIT QUESTIONNAIRE

We refer to your letter of 4 December 1985 asking us to complete a questionnaire on Value for Money audit. We have been advised by Mr McLellan, Depute Controller of Audit responsible for value for money matters that he will reply on behalf of all local authority auditors, and accordingly we return your questionnaire uncompleted.

Yours truly,

Coopers & Lybrand
by 

Price Waterhouse



6 December 1985

A Nemeh Esq
140 Ivanhoe Road
Cumbernauld
GLASGOW G67 4BB

Dear Sir,

VFM AUDIT QUESTIONNAIRE

We refer to the above questionnaire received by us on 2 December and regret that in accordance with guidance given by the Controller of Audit's office, we are unable to assist you with your research at this time.

Yours faithfully,

A large, stylized handwritten signature in cursive script, appearing to read 'Price Waterhouse'.

Enclosure



University
of Strathclyde

M Desmond Fitzgerald: Ernst & Whinney Professor of Finance
Christopher W Nobes: Professor of Accounting, and Head of Department
Peter F Pope: Touche Ross Professor of Accounting

Department of Accounting and Finance

Curran Building
100 Cathedral Street
Glasgow G4 0LN Tel: 041-552 4400

20 January 1986

Dear Respondent

In early December 1985, a copy of my questionnaire on VFM audit was sent to you for completion. We appear not to have had any response from you. I am keen to have replies from a large number of people and I would therefore be grateful if you could possibly spare the time to complete my questionnaire.

For your convenience another copy and a stamped addressed envelope are enclosed.

Yours sincerely

Ali NemeH

Enc

140 Ivanhoe Road
Cumbernauld
Glasgow G67 4BB



Department of Health and Social Security

National Health Service Audit

Friars House 157-168 Blackfriars Road London SE1 8EU

Telex 883669 Telephone 01-703 6380 Ext 4365, Room 748

Mr A Nemeh	Your reference
140 Ivanhoe Road	Our reference
Cumbernauld	
Glasgow	Date
G67. 4BB	23rd January 1986

Dear Mr Nemeh

Recipients of your Value for Money Audit questionnaire include the eleven Principal Auditors employed in the Statutory Audit of the NHS.

A single response will be made on behalf of the DHSS Audit Branch. As it has required some time to co-ordinate this response it may appear that we have forgotten to reply to you. I hope that I shall be able to send you our completed questionnaire within the very near future.

Yours sincerely

MARTIN KEENE



Department of Health and Social Security

National Health Service Audit

Friars House 157-168 Blackfriars Road London SE1 8EU

Telex 883669 Telephone 01-703 6380 Ext 4365

Ali Nemeh	Your reference
140 Ivanhoe Road	
Cumbernauld	Our reference
Glasgow	
Scotland	Date
G67 4BB	27th January 1986

Dear Mr Nemeh

I enclose the completed VFM questionnaire on behalf of the DHSS Statutory Audit Branch. I also return those prepaid envelopes which have been sent to me by the original recipients of the questionnaires.

If you require any further information please do not hesitate to contact me.

Yours sincerely

MARTIN KEENE

Appendix

The Scheduled Interviews

I - Public Officials

Date of the interview	Name of the Person Interviewed	Post of the Person Interviewed	Name of the Institution which the Person Interviewed Represents
25 February 1986	Mr Gordab	Director of Finance	Renfrew District Council
26 February 1986	Mr Leslie	Chief Internal Auditor	Forth Health Board
27 February 1986	Mr Collins	Chief Internal Auditor	Greater Glasgow Health Board
3 March 1986	Mr Crane	Chief Internal Auditor	Falkirk District Council
5 March 1986	Mr Duffus	Principal Internal Auditor	City of Aberdeen
10 March 1986	Mr Fraser	Principal Internal Auditor	Tyside Regional Council

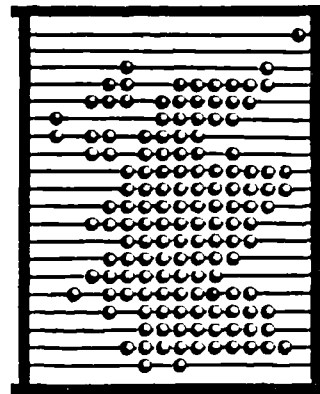
The Scheduled Interviews

II - External and Statutory Auditors

Date of the interview	Name of the Person Interviewed	Post of the Person Interviewed	Name of the Institution which the Person Interviewed Represents
13 February 1986 at 10:00 O'clock	Mr Wilkinson	Director of Accounting Practices	The Audit Commission
13 February 1986 at 2:00 O'clock	Mr Frame	Principal Auditor	DHSS National Health Service Audit
18 February 1986	Mr McLellan	Deputy Controller of Audit for Value For Money	The Commission for Local Authority Accounts in Scotland

13 November 1985

Mr Ali Nemeh
c/o David Lyle
Department of Accounting
Strathclyde University
GLASGOW



COMMISSION FOR LOCAL AUTHORITY
ACCOUNTS IN SCOTLAND

Dear Mr Nemeh

EXTERNAL AUDIT OF SCOTTISH LOCAL AUTHORITIES

I refer to your telephone enquiry today and have pleasure in enclosing a copy of the Accounts Commission's Tenth Annual Report.

Should you wish clarification on any point or any further information please do not hesitate to contact me.

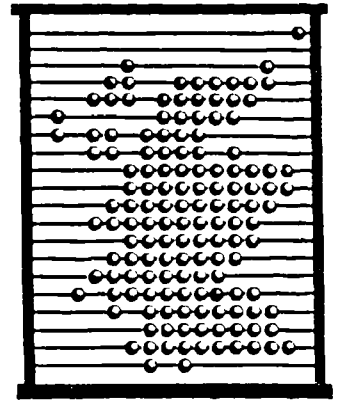
Yours sincerely

A handwritten signature in cursive script, appearing to read 'I. McLellan'.

I McLELLAN
Depute Controller of Audit

9 December 1985

David Lyall Esq
Department of Accounting & Finance
University of Strathclyde
Curran Building
100 Cathedral Street
GLASGOW G4 OLN



COMMISSION FOR LOCAL AUTHORITY
ACCOUNTS IN SCOTLAND

Dear Mr Lyall

VFM AUDIT QUESTIONNAIRE

I refer to my letter of 4 December and now enclose my answers to the questions posed by Mr Nemeah.

As indicated earlier I would be happy to expand, as necessary, on the information provided at a meeting, if this can be arranged.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'I. McLELLAN'. The signature is fluid and cursive, with a long horizontal stroke at the end.

I McLELLAN
Depute Controller of Audit
(Value for Money)

ENC



City of Aberdeen

City Chamberlain's Department

City Chamberlain: George G Niven CA FBIM

Ali Nemeĥ, Esq.,
University of Strathclyde,
Department of Accounting and Finance,
Curran Building,
100 Cathedral Street,
Glasgow,
G4 0LN.

All communications
should be addressed to:
The City Chamberlain
Town House, Aberdeen
AB9 1AH
Telephone: 642121
STD 0224

If telephoning
please ask for:
Mr. Duffus
Extension: 571
Our Ref: 644
Your Ref:
Date: 18th February, 198

Dear Sir,

Value for Money Audits

I refer to your letter of 12th February and would suggest that you contact either my Chief Internal Auditor, Mr. Duffus (ext. 571) or my Principal Auditor, Mr. Middleton (ext. 593) to arrange a mutually convenient date and time.

Yours faithfully,

City Chamberlain

WALTER WEIR, I.P.F.A.
DIRECTOR OF FINANCE

Falkirk District Council

MUNICIPAL BUILDINGS, FALKIRK. FK1 5RS.
TELEPHONE : FALKIRK 24911

If phoning or calling ask for: Mr. Crane
Our Ref.:DRC/FH Extn.No.2294
Date 20/02/86 Your Ref.

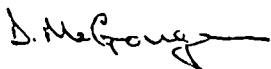
Mr. Ali Nemeah,
c/o Department of Accounting & Finance,
University of Strathclyde,
Curran Building,
100 Cathedral Street,
GLASGOW, G4 0LN.

Dear Sir,

VALUE FOR MONEY AUDITS

With reference to your letter of 12th February 1986, you are welcome to visit these offices during the week beginning 24th February 1986. Please contact Mr. Crane on extension 2294 to arrange a suitable time.

Yours faithfully,



Director of Finance.

Audit Commission

1 VINCENT SQUARE, LONDON SW1P 2PN
TELEPHONE: 01-828 1212 TELEX: 299192 AUDCOM

January 29, 1986

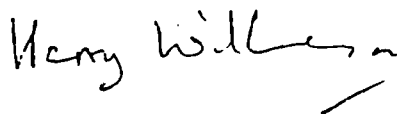
Mr A Nemeh
Department of Accounting and Finance
University of Strathclyde
Curran Building
100 Cathedral Street
Glasgow G4 0LN

Dear Mr Nemeh

I am not sure who it was to whom you spoke in December. However, I would be willing to talk to you on Thursday or Friday February 13/14.

Please let me know when you will be coming as my timetable tends to fill up quickly.

Yours sincerely



H R WILKINSON
Director of Accounting Practice



Tayside Regional Council

8439

FINANCE DEPARTMENT,
Tayside House,
28 Crichton Street,
DUNDEE, DD1 3RF
telephone 0382 - 23281
Telex 76518 - TAYREG.

Ali Nemeh Esq
Per Department of Accounting & Finance
University of Strathclyde
Curran Building
100 Cathedral Street
GLASGOW G4 OLN

our ref WF/AK 1/7
(Please quote on reply)
your ref

date 24 February 1986

Dear Sir

Value for Money Audits

I refer to your letter of 12 February 1986 requesting to visit this office during the week beginning 3 March 1986, to discuss the above subject. Please telephone my Principal Internal Auditor, Mr W Fraser to arrange a suitable time and date as he has other meetings on this week but will attempt to meet with your requirements.

Yours faithfully


Director of Finance

When calling or telephoning please ask for:-

Mr W Fraser - Ext 3875





GREATER GLASGOW HEALTH BOARD

225 BATH STREET
GLASGOW G2 4JT
Telephone: 041-204 2755

Our Ref.: MC/GW T And/Gen

Your Ref.:

If phoning
ask for—

Mr M J Collins

All communications must be addressed to
Treasurer's Department

14 February 1986

Mr Ali Neme
Department of Accounting and Finance
University of Strathclyde
Curran Building
100 Cathedral Street
GLASGOW
G4 0LN

Dear Mr Neme

I refer to your letter dated 12 February 1986.
I shall be pleased to discuss the findings of your
survey with you, and I suggest 2.00pm on Wednesday
26 February. My office is room 6.21 at the above
address.

If you wish to arrange an alternative time please
contact me on 204-2755 extension 2636.

Yours sincerely

M J COLLINS
Chief Internal Auditor

REFERENCES

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25. Dewar, David. "Current Practice in the UK: Central Government" p. 22.
26. Marsdon, Brian and Leeland, Chris. "Value For Money in The Public Sector (or The Waste-Watcher's Guide)". p. 14.
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CHAPTER NINE

SUMMARY, CONCLUSION AND IMPLICATIONS OF THE STUDY

CHAPTER NINE

SUMMARY, CONCLUSION AND IMPLICATIONS OF THE STUDY

Summary

Conclusion

Adoptability of OA by Developing Countries

Limitations and Possibilities of OA

A. Limitations

B. Possibilities

Implications for the KAB

1. To Broaden The KAB's Audit Activities
2. Methodologies of the New Audit Techniques
3. Comprehensive Review as Opposed to Review of the Whole Organisation
4. Time-lag and the Realisation of OA Results
5. OA Review and the KAB's Role in Performing Financial and Regularity Audit
6. Broader Roles for KAB and The Internal Audit Departments
7. Wider Role for The Ministry of Finance in Performing The Pre-audit Review
8. OA and the Need for Internal Control Systems
9. Wider Implications for The Private Accounting Firms
10. Better Salary and Fringe Benefits for the KAB's Technical Staff
11. A Multidisciplinary Technical Staff
12. Improving the Teaching and Training Programmes
13. Wider Choice From Which to Select the President/ Head of the KAB
14. Better Follow-up Systems
15. Performance of OA by the KAB and the Need for Standards

Obstacles and Recommendations

1. The Lack of Specialised Staff
2. The Present Audit Act
3. Inadequate Management Information, Control and Reporting Systems
4. The Lack of Performance Criteria
5. The Lack of a Proper Documentation System
6. The Lack of Support of top Government Officials
7. Human Behaviour and The Defensive Attitude of Government Officials
8. The Lack of Motivation
9. The Current Status of the Internal Audit Departments

Specific Recommendations

Further Research

CHAPTER NINE

SUMMARY, CONCLUSION AND IMPLICATIONS OF THE STUDY

Summary

After reviewing operations auditing in some selected western developed countries, (Canada, Sweden, the UK and the USA), this chapter discusses the implications of the findings for the Kuwaiti Audit Bureau (KAB), and makes some recommendations for overcoming the obstacles identified in the study which could hinder the introduction or full adoption of OA by KAB and other Kuwaiti public organisations.

In chapters two and three the researcher described the financial monitoring and auditing systems and the accountability relationships in the KPS. At the end of these two chapters the researcher was able to identify some major deficiencies which might hinder the introduction of OA into the KPS. Some of these short falls were:

- (1) The lack of comprehensive government objectives and policies.
- (2) The lack of a performance measurement system.
- (3) The lack of some essential systems i.e. cost accounting systems and internal audit systems.
- (4) Finally, the existence of some inappropriate systems i.e. the budgetary, accounting and reporting systems, which are designed solely for regularity and financial accountability purposes.

Chapter four dealt with the theoretical approach to OA in the public sector. The researcher found that there were more conflicts than agreements among academics and practitioners with regard to the objectives, main components and methodology of this type of audit.

Because of the above-mentioned conflicts, and the researcher's desire to find out how OA is practised in the western developed countries, the researcher investigated different approaches of four different countries. In chapters five and six the British and Canadian, and the Swedish and American approaches respectively were discussed. This was followed by a chapter on an overall comparison of the different approaches of the selected four countries. At the end of these chapters and because of the existing conditions in the KPS, the researcher found that both the American and Swedish approaches to be an appropriate long term solution while the Canadian and British approaches to be a short term one. But because of the lack of a comprehensive literature on UK VFM audit practices and since the researcher is based in the UK, he has decided to concentrate his attention and the scope of his fieldwork toward the practice of VFM audit in the UK public sector. Chapter eight presented the results of the empirical work.

As was mentioned in chapter one, this research project aimed to achieve the following main objectives:

- (1) To examine the current state of the financial monitoring systems in the State of Kuwait and to

determine whether there is a need for extending the scope of government auditing to cover OA review.

- (2) To study the OA approaches of some selected countries, namely Canada, Sweden, UK and USA, and
- (3) To undertake fieldwork in UK local and Health authorities, consisting of personal interviews and questionnaire surveys. The purpose in pursuing these objectives is three-fold:
 - (A) To determine the scope and purpose of OA investigations performed in the selected countries.
 - (B) To isolate factors which contribute to the differences in OA practices in these countries, and
 - (C) To draw any implications of the findings for the KAB and other Kuwaiti public organisations.

The first three chapters of this study showed that the state of Kuwait is evolving as a modern state, whose government has shouldered the responsibilities of the economic and social welfare of its citizens. Consequently the activities of the Kuwaiti government are no longer confined simply to keeping the peace and upholding the law but now extend to the running of health and education programmes and the owning and management of private enterprises such as banks, hotels and industries. Through government aid programmes for Arab and other developing countries, and through investment in many western countries, Kuwait is active internationally.

The Kuwaiti government has adopted a five-year plan as a means of fulfilling its new responsibilities. Furthermore, the establishment of the National Assembly

as the legislative branch of government and the decision to make democracy the way of life for Kuwaiti society, and the new role the country has taken, have combined to create the feeling that government operations can no longer be left to personal judgement and intuition. The demand that government affairs be conducted by more scientific approaches and procedures has led to a demand for more information.

The public, through their elected representatives, started to demand more information on the performance of, and the results achieved by, government units and their officials. However the boundaries and dimensions of the information required were not specifically determined.

The effect of such demands for more information was compounded by the narrowness of the scope of the monitoring systems operating in the Kuwaiti Public sector, (KPS), in general and auditing in particular.

The main reason behind the belief that the financial and regularity audit is inadequate in a modern society where government activities are so vast and complex, is explained by Clinton T. Taminura. He states that the financial and regularity audit

"is very relevant to the decisions which legislatures have to make. What programs to authorize or discontinue, what funding levels for which programs - These are the kinds of issues which constitute recurring problems for state legislatures because the legislature has little information by which they can independently and rationally make budget and program decisions"¹

More precise examples of the main deficiencies of the Kuwaiti auditing system can be found in chapter

three. On the other hand, the financial and regularity audit still has its place as a monitoring system and as a necessary pre-requisite for any OA system

"there was general agreement on the importance of performance audit, although it was recognised that sound financial audit was a necessary pre-requisite" ²

Consequently, the financial and regularity audit should not be neglected and should continue to receive adequate attention from programme managers and executives.

It is not the intention of this chapter to encompass every inference that can be made from the research results, nor to summarise the discussion presented in previous chapters. To a large extent, the opening statement of the concluding chapter of Normanton's book is applicable here. Normanton's states;

"As for the evidence for our conclusions, that is also to be found in previous chapters and may only be outlined or even omitted altogether in the present one. The general facts and theories in our early chapters have scarcely an echo here. Which is to warn this concluding chapter cannot stand alone. It is a collection of observations of some of the most important questions which have been discussed...." ³ [Emphasis has been added by the researcher].

Conclusion:

From a review of the literature on the general approach to the performance of OA, and from the discussion of the accumulated experience of some selected western developed countries in the performance of OA review, the researcher concludes the following three points:

- (1) Differences exist, among academics and practitioners, as to the terminology and connotations of OA, i.e. its nature goals and methodologies....
- (2) Differences exist in the scope and objectives of OA review performed in the selected countries. These differences are attributed mainly to the system of government, to public expectations prior to the introduction of OA review, and to the legitimacy of the government activities.
- (3) The Kuwaiti auditing system is mainly concerned with financial and regularity audit. The American and Swedish supreme audit institutions have virtually stopped performing financial and regularity audits and have directed their efforts almost entirely to the performance of OA type review. The British and Canadian supreme audit institutions still perform financial and regularity audit examinations alongside their OA investigations.

Adoptability of OA by Developing Countries:

According to the UN publication "Public Auditing Techniques", the traditional financial and regularity audit should slowly evolve into an operational audit "with a strong development orientation in the face of occasional constraints and, at times, an inhospitable environment".⁴ If, as is the case, the new audit techniques began in the western developed countries, is it possible to transfer them to other countries, especially to developing nations and to what extent are

these techniques able to be transferred?. As Normanton indicates,

"a purely technical invention is likely to function properly in any country, and in the field of administration many new ideas are no more than technical devices. Some, however, have political or constitutional implications, and it is these which require special caution on the part of the country which imports them."⁵

To be more precise about the technical device in question, namely OA review, the researcher asked the American team working with the Saudi Audit Bureau about the possibility of OA being adopted by developing countries. They are of the opinion that, it is possible to adopt operational auditing in developing countries. Furthermore, Cyril Tomkins in his paper "The Expanded Nature of Public Sector Audit Skills", which was presented at the First International Conference of Accounting in Kuwait, agrees with the views of the American team and goes further in declaring the type of report most appropriate for the state of Kuwait. Tomkins states that

"There is scope for exciting development in state audit in countries such as Kuwait and if the suggestions offered here are accepted, development should commence at what is, to the author [Tomkins], the more exciting end of auditing, namely level III [Programme results or effectiveness review]." ⁶

Tomkins quotes from the US General Accounting Office "Standards for Audit of Governmental Organisations, Programs, Activities and Functions 1981, Revised Edition", to define the three levels he mentions in his paper, namely; Level I Financial and compliance, level II

economy and efficiency, and Level III programme results.

In more detail, level III

"determines (a) whether the desired results or benefits established by the Legislator or other authorising body are being achieved and (b) whether the agency has considered alternatives that might yield desired results at a lower cost."⁷

This is not the place to argue with Tomkins' views, but the researcher accepts Tomkins' suggestions as the long term solution for expanding the KAB's activities. The most important conclusion to be reached from the above is the applicability of OA being transferred to, or imported by, the KAB and other Kuwaiti public organisations.

Working from the above-mentioned premises, the researcher will present some implications for the KAB, but before doing so, the main limitations or misconceptions of OA will first be presented.

Limitations and Possibilities of OA:

In order to successfully introduce OA techniques to the KPS and KAB, the limitations of such techniques (what this type of audit can, and cannot do) must be fully understood by those considering the adoption of OA techniques. It is a matter of some urgency that the limitations of OA be understood because its adoption by many countries without consideration of its limitations has already led some to misuse this audit technique.⁸ In other countries its introduction has met with unrealistic expectations and publicity which implied that this type

of audit can "measure the immeasurable",⁹ and "give answers to the nagging and undoubted public concern about the efficiency of a wide variety of public sector organisation".¹⁰ Allan S. Dayton suggests that an understanding of OA's limitations is important because "OA is likely to contain seductive forces that beguile unsuspecting internal auditors to failure or even disaster".¹¹ Anthony Hopwood agrees with Dayton and Warned, in a seminar, of the foreseeable dangers in importing new techniques without a full understanding of their boundaries and capabilities. Hopwood states that there are

"difficulties of 'reading across' experience from one country to another. Differences in laws, traditions, distribution of wealth and power were influential background factors too easily overlooked. Attempts to transfer technology had often been wrecked on those rocks".¹²

Consequently, the limitations of OA will be presented first, followed by what OA is or can do.

(A) Limitations:

- (1) it is not the function of OA to identify every deficiency which occurs or could occur within the audited organisation. It would be neither realistic nor practical to do so;

"OA cannot be used as a vacuum cleaner. Realistically, it can be used only to search for major deficiencies and opportunities for improvement. Of course, the operations auditor will not turn away from the small problems and opportunities he comes across, but discovering them will be a byproduct of his major effort".¹³

(2) OA review performed by the external or statutory auditors is not a substitute for those examinations conducted by the internal staff of the audited organisation, according to Gregory R. Pashke,

"Operational audits will not... reduce the necessity for the continued internal appraisal of operations of the organisation, for this is an ongoing responsibility of management".¹⁴

(3) According to the Canadian Comprehensive Auditing Foundations, OA is intended to give assurance and to improve the managerial systems and is not solely intended to achieve direct cash savings. In other words, OA type investigations

"are assurance oriented and are not designed to result in studies that are primarily directed to cutting corporate costs. Thus, examination reports will always result in savings to the organisation, though such examinations should normally identify possible improvements in managerial processes that, if implemented, could lead to savings or efficiency gains or greater value than the cost of the examination".¹⁵

(4) Operational auditing cannot and will not provide answers to every problem in the audited organisation. "Comprehensive auditing [Operational auditing is the term adopted by this research] is not a panacea for an organisation's every problem".¹⁶

(5) Reports on any OA investigation will not automatically yield benefits unless the management of the audited organisation acts upon them

"Although comprehensive audit [term adopted by this research is OA] reports can point out how management may be improved administration is not automatically improved by a comprehensive audit, management must take concrete action on the findings and

recommendations if that is to occur" 17

(B) Possibilities:

- (1) OA can provide in-depth, objective feedback to the management on the current state of the audited organisation's operations and systems. In addition it provides "insight for management to better understand the 'wholeness' of the organization and the interwoven relationships of the various functional areas".¹⁸
- (2) Many OA assignments could result in a more in-depth examination of the operations and systems of the audited organisation, which could help "determine the organisation's capability to soundly manage itself".¹⁹
- (3) There is no reason why OA should not recommend practical general guidelines for improving operations, but the auditor performing OA review should not offer management lengthy and over-precise, "Cook Book" recommendations.
- (4) According to Gregory F. Pashke, OA review performed by external auditors can
"stimulate constructive thinking by internal personnel who, while working with the independent auditor or reviewer, are forced to analyze their positions, procedures and environment from a different perspective".²⁰

Implications for the KAB:

This research project, and its investigations into the accumulated experience of selected developed countries in performing OA reviews by their supreme audit

institutions, should have some implications for the parties concerned with public sector auditing in Kuwait.

(I) To Broaden the KAB's audit activities:

The Kuwaiti Audit Bureau should seriously review its activities and consider the possibility of broadening its audit scope to embrace the new audit technique. A systematic procedure and a well-planned introduction should be a pre-requisite for the intended changes in the practice of public sector auditing in Kuwait.

(II) Methodologies of the new audit techniques:

Although it has been more than six decades since the introduction of OA, unfortunately the OA concept is still neither clear nor specific. Different practitioners and academics have their own definition of what OA means, and each of these definitions puts a different emphasis on the techniques or analytical methods that could be used. It might be possible for all OA investigations to embrace the three "Es", but the procedures followed in reviewing these three "Es", or any one of them could differ from one country to another.²¹

This issue has two implications, for international professional auditing bodies and for academics, which will be explained in the last section of this chapter [Implications for further research], and also for KAB and any other private or public bodies in Kuwait who are considering importing this type of audit technique. OA should not be an end in itself but should be utilised as

a means of bringing about intended changes. The officials at the KAB and other Kuwaiti public organisations should not only understand the limitations of OA in order to avoid any unrealistic expectations, but should also clearly define their approach and what they are attempting to achieve.

As stated earlier in this research project, OA can be used to review government policy and objectives or merely to review management systems to ensure that the proper environment for achieving such policies does exist. The objectives of any OA assignment can be to strengthen the accountability relationship or management information and reporting system, or to achieve whatever objective the management and the audit act may dictate. Therefore, the experience of OA in the selected countries, and the differences in their approaches make it necessary to define OA terminology prior to its introduction.

III. Comprehensive review as opposed to review of the whole organisation:

It is neither practical nor economically feasible to perform OA review on every activity, operation, system, procedure and transaction of a particular government organisation or programme simultaneously. OA consist of carefully planned selected investigations which focus on the areas or activities where attention is urgently needed

"Comprehensive auditing [the term adopted by this research is OA], does not imply a

wall-to-wall examination of all activities, controls and systems. Such broad audits would be costly, disruptive difficult to control, and of doubtful cost-effectiveness. Nor does the term "comprehensive" imply that an organization's entire structure of programs and units need be audited simultaneously. Instead, the audit can be conducted on a selective, piece-by-piece basis over a designated period of time." 22

The implication for the KAB and any other Kuwaiti government organisation is that OA review is not a straightforward investigation where the auditor starts at one end and finishes at the other. On the contrary, OA review requires careful planning and sound procedures by which the cost of conducting OA examinations is minimised, while their coverage of the activities and systems of the audited organisation is maximised. It is certain that this will not happen unless OA is a comprehensive review based on selective sampling techniques, rather than a 100% review of the organisation.

IV. Time-lag and the realisation of OA results:

The Swedish experience in the field of effectiveness audit review shows that although the National Audit Bureau have been performing effectiveness audits for more than ten years their activities are still confined to the areas of economy and efficiency. This has implications for the KAB and other Kuwaiti public organisations, if OA techniques are accepted and introduced in Kuwait. These implications are:

- (i) The performance of the new audit type review will

not require straightforward expansion of present procedures and techniques followed in the performance of financial and regularity audits, but as mentioned previously, OA will demand a lot of planning and the co-ordination and co-operation of efforts from all interested parties. Needless to say, OA assignments require huge amounts of resources in human and financial terms.

- (ii) The introduction of the new audit techniques and the extension of the KAB's activities to cover this type of audit review should be gradual,

"several big changes cannot be put through too close upon each other's heels. Numerous small changes are more easily accepted and adopted than fewer but larger reforms".²³

This being so, the researcher suggests that the intended changes should take place over three different stages;

Stage A:

The KAB should start performing only efficiency and economy audits during this stage. According to J.J. Glynn "An efficiency audit, perhaps more than effectiveness review, is a logical extension of the traditional financial and compliance audit".²⁴ Furthermore, the auditor particularly the external auditor

"already has an accepted role in commenting on cases of waste, extravagance or failures in financial control systems. The examination of internal control systems is common to financial, compliance and efficiency audits".²⁵

Another two reasons were given by Henry Butt and Bob

Palmer to support the researcher's beliefs

"..... value for money reviews in the main have concentrated upon economy and efficiency. For one thing, these areas are easier to tackle whereas the techniques for reviewing effectiveness are relatively in their infancy. For another, management in the public sector is invariably preoccupied with the immediate need to save costs".²⁶

While Normanton adds the last, but not least important, reason, he states that

"efficiency audit has shown that it works, it has contributed to the productivity of administration and reduced its cost, whilst itself costing next to nothing".²⁷

So, until it establishes itself as a body capable of undertaking the new audit responsibility, the KAB should concentrate on reviewing the economy and efficiency of government operations and activities.

Stage B:

This stage should commence when the KAB's officials feel that the experience gained during the previous stage will enable them to extend their activities to cover effectiveness review as in Canada and Britain. The approaches of these two countries are concerned with reviewing the management systems and internal arrangements of the audited organisation to ensure that the management has prepared an environment suitable for achieving government policies and objectives.

Stage C:

When government officials completely accept the KAB's new role, and get over their fear of direct

intervention by KAB into their operations, and assuming that all obstacles mentioned in chapters two and three have been overcome, then this stage should be considered. It is a long term solution which the researcher expects may take KAB at least ten to fifteen years to be ready to launch this stage. In this stage it is expected that the KAB would be able to be directly involved in assessing government activities to find out whether they were achieving the government's objectives. In short the KAB should follow the American approach in performing OA review.

(iii) The last implication, drawn from the Swedish experience, is that the Kuwaiti officials should expect OA investigations to take time before they bear fruit and start to pay their costs.

V. OA review and the KAB's role in Performing Financial and regularity audit:

One main theme of this research so far has been that where the government plays a major role in the domestic economy and on the international scene, then it is believed that the financial and regularity audit alone is inadequate as the main monitoring system supplying managers and elected officials with feedback to guide their decisions on the activities of their departments. According to Clinton T. Tanimura, the information required by the Legislature, top government executives and managers is

"..... information bearing directly on government programs, including how well programs are managed and whether they are achieving the results expected".²⁸

To this end, government monitoring systems should be strengthened and modernised to meet new demands; a way to effect this is to supplement the existing financial and regularity audit systems with the OA techniques.

Another main research theme has been that financial and regularity audit is the predominant, if not sole, role of the KAB, although this audit situation varies in the selected western countries, in two of these countries the audit institutions have either stopped, or are about to stop, performing financial and regularity audit, while the other two countries continue this type of audit alongside their new duties in conducting OA investigations. Furthermore, where financial and regularity audit is still performed, the supreme audit institutions of these countries have already departed from the traditional technique of reviewing every transaction, voucher, activity and system. They have adopted more modern, scientific techniques to determine the proper sample required to achieve the audit objectives at minimum costs. In addition, the system-based audit has been substituted for the transactions-based audit.

The western experience in performing financial and regularity audit should have some implications for the KAB which is still required, by law No. 30 for the year 1964, (Audit Act), to undertake one-hundred percent

review of government documents, transactions and systems. Furthermore, the KAB still performs its financial and regularity audit review on transactions-base, so, in order to follow its western counterparts, it has to move towards adopting the new technique of system-based audit and sampling techniques. The researcher believes that the results of these efforts will free a considerable amount of the KAB's time and resources from the unnecessary review of government vouchers and transactions. The researcher expects that the audit act currently in force may be the only major obstacle in the way of the above-mentioned improvements in the field of government auditing in Kuwait.

VI Broader roles for KAB and the Internal Audit Departments:

Should the Kuwaiti officials decide to import the new audit technique, a proper pattern for their OA system must be arranged. Those available are:

(A) To temporarily employ staff specialising in OA review to undertake the OA investigation. The results of the questionnaire showed that this type of arrangement is least acceptable to the practitioners. the researcher feels that this option could be rejected by the Kuwaitis as well, for three reasons:

(1) This type of arrangement may well turn out to be non-cost-effective; in other words OA investigations may prove to be too expensive compared to the benefits realised from them.

(2) The appointed specialists may try to do "Some quick but untidy job" to satisfy their fees.

(3) Finally, officials of organisations subjected to OA review may use excuses, such as the shallowness of the investigation (and therefore, of its findings) or the lack of knowledge of the appointed specialists, to reject the legitimate findings of an investigation done to the proper standards.

(B) To establish a special monitoring unit or body for OA review. The researcher believes in the efficacy of having an independent specialised body which is solely responsible for performing OA investigations. One would expect that the establishment of such a body would not only assist in performing OA reviews on a regular basis but would also undertake research projects in this area to determine best practice in any particular activity or operation. This option, however, would prove to be impractical in the short term for the following reasons:

(1) Before adopting this option, it must be decided who is to have jurisdiction over the new body, and this may delay the introduction of OA to the KPS.

(2) The huge amount of resources needed to establish and run such a body may put the government off at this time when oil revenue is declining.

(3) Finally, this option requires the establishment of new legislation affecting this body, legislation which could take up to two years to promulgate.

The researcher supports the idea of having a specialised unit as a long-term solution, when the demand

for OA investigations reaches a level which justifies the establishment of such a body. Jean-Pierre Boisclair understands that there is

"The need to organize their [Private Accounting firms] practices in a reasonable way to deliver the product. Until the demand for comprehensive auditing [OA is the term adopted by this research] becomes substantially greater, it is probably unreasonable to expect practitioners to establish clearly identifiable organizational units in their practices dedicated to comprehensive auditing".²⁹

Should Kuwaiti officials decide to establish a new, specialised body, either now or later when the environment is favourable, the researcher would suggest that the new body be attached to either the Council of Ministers or to the National Assembly; rather than to the Ministry of Finance or any other government department or Ministry. It would be preferable, however, that the new OA body was directly attached to the Office of Prime Minister, for the following reasons:-

- (i) The experience of the Ministry of Finance, with regard to the jurisdiction of financial controllers, could help to predict the government units' reaction. In the past, these units stood fast and not only rejected the Ministry's right to direct these financial controllers, but also rejected the Ministry's historical claims that such officials were its staff, stationed at different government organisations. Consequently, they denied the Ministry's legal jurisdiction over these staff.

- (ii) The attachment of the new body to the Council of Ministers gives the government organisations some indicators that the role of the body is expected to be an intra-ministries one, with the purpose of unifying and disseminating good practice.
 - (iii) One would expect that the attachment of the new body to the Council of Ministers could give the body the support and commitment of the Council, especially of the Prime Minister. Such support is not only needed for the approval of the establishment of the new body and its role, but also to give some assurance that the findings and recommendations made by the new body will be acted upon and will receive proper attention.
 - (iv) Finally, the attachment of the new body to the Council of Ministers does not exclude its activities and operations from subjection to the review of the statutory auditor, which will help to strengthen the accountability of the new body, and all government organisations subjected to the body's investigation, to the elected members.
- (C) The third and final option is to utilise the available resources and give both the KAB and the internal audit departments' government organisations a broader and more active role in performing OA reviews.

Under this option KAB would be expected to:

- (i) Undertake the performance of comparative studies and consequently to disseminate information on the best practices of government activities and

operations.

- (ii) Co-ordinate and co-operate with internal audit departments for the purpose of better, well planned coverage of the activities and operations of the audited organisation.
- (iii) Respond to any request made by either the National Assembly or the Council of Ministers for a special OA review.
- (iv) Follow-up OA reports prepared by the appointed private accounting firms.
- (v) Report to the National Assembly and the Council of Ministers on the OA reviews and follow-up of its reports. The researcher would suggest that all the KAB's reports, not only those related to OA review, should be available on request to all interested individuals i.e., academic and research institutions and the public at large.

Under this option, the internal audit departments would be expected to:

- (1) Continue to perform financial and regularity audit but also to undertake OA investigations on a regular basis.
- (2) Comply with any request for a special OA assignment made by top officials of the organisation or by the external and statutory auditor.
- (3) Liaise with the KAB to provide better coverage of the activities and operations of the audited organisation.
- (4) Follow-up its reports especially those on its OA

examinations.

The researcher strongly recommends this option for the following reasons:

- (i) It is believed that it would be more cost-effective than any of the others.
- (ii) It only requires some amendment to the Audit Act currently in force to enable the KAB to perform its new duties and to entitle the Bureau to free access to all government documents, reports and information necessary for its audit assignments.
- (iii) The close relation with the internal audit departments advocated under this option could stimulate these departments to pay more attention to this type of audit.
- (iv) The performance of regular, in-depth investigations by the internal audit departments is likely to create awareness, among government officials of the audited organisations, of the importance of achieving better economy, efficiency and effectiveness in their operations, activities and duties.
- (v) Finally, one would expect that this option could provide a more suitable answer to the fear of government officials of external evaluator intervention into the activities and operations of the audited organisation.

(VII) Wider role for the Ministry of Finance in performing the pre-audit review.

The pre-audit review, as a control technique operating within the government's or public organisation's overall monitoring system, could be of great use if properly applied. In Kuwait the audit act currently in force requests the KAB to perform pre-audit review of certain government transactions and activities, and also to conduct the post-audit for these activities and transactions once completed. Where the pre-audit review is performed in this manner it is more of a burden than a help and its disadvantages may outweigh any benefit expected from this type of review. According to *the UN publication, the audit institutions*

"would be auditing their own judgements in the pre-project phase. Despite the seeming advantages of early review by external auditors of pre-project studies, on balance, it appears to be prudent to forego this activity".³⁰

Needless to say, KAB's performing both the pre-audit review and the post-audit review could distract attention and put pressure on the limited resources available for the KAB's activities and operations.

The KAB would be advised not to perform this type of audit, as doing so would mean that it would have more time to devote to the performance of its other functions such as OA reviews.

"To the extent that external audit offices extricate themselves from pre-audit and internal audit responsibilities, they will free impressive blocks of time for performance auditing [the term adopted by this research is OA]".³¹

Therefore, if the KAB is to import western audit techniques and is to benefit from western experience in the field of OA practices [within the limits imposed by the existing environment in the KPS], the responsibility for performing the pre-audit review should be transferred to the Ministry of Finance. It would be preferable if a new department [controller of audit] were established within the Ministry to be responsible, among other things for the performance of the pre-audit review of those activities and transactions currently audited by the KAB.

VIII OA and the need for internal Control Systems:

The literature available shows that any internal *control system may be composed of four main components*, such as internal accounting control, internal administrative control, internal check and internal audit. The purpose of any internal control may be, among other things, to ensure the accuracy and reliability of accounting data which, to a large extent, depends on the efficiency and effectiveness of the system responsible for generating them, it also depends on the competence of the staff responsible for operating and overseeing the accounting system. Furthermore, the internal control system may be aimed at ensuring the achievement of operating efficiency and adherence to the managerial policies and procedures. Therefore, it seems that a sound internal control system is needed in all government units regardless of their size, nature of their business, and the complexity of their operations and activities. The

best possible means available for ensuring the soundness of the internal control system is to establish an internal audit department to be the management's ears and eyes. According to Victor Z. Brink and others

"The need for internal auditing exists in all types of organisations where the complexity of the activity, the volume of transactions, and the dependence on large numbers of people exist, in some combination, to create management problems".³²

In Kuwait the need to have an internal audit department may be due, as the researcher believes, to the fact that such a department provides the solution to the defensive attitude of government executives towards any external monitoring system, simply because internal audit reports are not normally published. Consequently, these reports cannot be inspected by the general public, who might use them in questioning the government officials and hold them accountable for their performance. Furthermore, the internal audit department has a limited responsibility to review and examine all operations and activities of a certain government unit. In short, its role is confined to monitoring the activities of a single government organisation, and it reports only to the top executives of the audited organisation. In addition, the results of the questionnaire survey of some of the UK health and local authorities showed that most of the surveyed organisations depend on their internal audit departments for performing in-house VFM audit investigations. Therefore, it seems that an independent, fully staffed internal audit department could be a vital

element for the full adoption of OA review in the public sector and could also contribute to the effectiveness of any OA investigations carried out by external and statutory auditors.

".....a strengthened federal audit [external audit] presence alone is not enough to improve the economy and efficiency we [GAO's officials] believe, they need to assume greater responsibility for establishing and maintaining strong financial management systems, establishing audit follow-up systems and strengthening their own internal audit capabilities." 33

The above should have implications for the internal audit departments of the Kuwaiti public organisations and could encourage the Kuwaiti executive officials to allow their activities and operations to be subjected to OA review. It could also have a tremendous effect on the success of OA review in the KPS.

In order to have an efficient and effective internal control system in every Kuwaiti public organisation, the government officials of these organisations should start thinking of the establishment of an internal audit department. Where these departments do exist, the officials should strengthen them through injecting new, well qualified staff, through delegating more power and authority to the staff, and through allowing these departments full and free access to all records and personnel as sources of information needed for their audit assignments.

Furthermore, in order to achieve value for money from the establishment of these departments, there should be no department or activity within the government

organisation immune from the internal audit investigation

"The full benefits of an internal audit department are lost if certain areas in a hospital are off limits to auditors or if an internal audit department voluntarily limits the scope of its own activities." 34

Therefore the establishment of internal audit departments, or the strengthening of existing ones, would assure the soundness of the internal control system within Kuwaiti public organisations. This in turn could assist the KAB, as an external auditing body, to devote more effort and resources to OA examination of the government activities and operations, and to undertake special type studies, as the central body responsible for disseminating information about good practice.

"The most promising way of increasing the resources available for value for money auditing is to develop closer co-operation between internal and external audit so that greater reliance can be placed on the work of the former". 35

Before there is any shift of responsibilities from external auditor [KAB] to the internal audit department, the former should assess the effectiveness of the internal audit department in carrying out the new task. Furthermore, the KAB should determine the degree of reliance which could be put on the staff of, and the performance or results achieved by, these departments.

IX. Wider implications for the private accounting firms:

The shortage of qualified and competent staff is considered a serious impediment which could, to a large extent, hinder the KAB's adoption of OA.

Consequently one possible solution is to seek assistance from private accounting firms, especially those who have some experience in performing OA investigations.

One would expect that the role of these accounting firms would not only be to carry out some OA assignments on behalf of the KAB, as is the situation in UK local authorities, but also to work closely with the KAB to develop a proper training curriculum and, thereafter to share the responsibility of training the present KAB staff and all of the new recruits. Therefore, the private accounting firms should expect that the introduction of OA to the KPS, and its adoption by KAB, would create a great demand for their services.

X. Better salary and fringe benefits for the KAB's technical staff:

The above-mentioned implication for private accounting firms has, in its turn, important implications for the technical staff currently working with the KAB.

One obstacle was identified by the American team from GAO working jointly with the General Auditing Bureau of the Kingdom of Saudi Arabia, and by Francisco S. Tantuico, namely that

"It is no easy task for Supreme Audit Institutions in developing countries to attract and retain employees with the desired skills and qualifications. Compensation is low, and benefits and opportunities for advancement do not compare favorably to their counterparts in the private sector. The problem is compounded if, after the audit staff are trained, they move out to the so-called greener pastures... 'brain-drain'".³⁶

Therefore, according to the American team working in Saudi Arabia, it seems that

"The government is competing with private industry and Public Accounting Firms, and as a result they may not get as many employees as they would like.... or.... the best qualified employees"

Consequently governments and audit institutions are faced with three options:

Firstly, to recruit new graduates and put them in extensive training programmes. The disadvantage of this option is that the cost of running these programmes might lead to a sharp increase in the expenditure of the audit institution. Furthermore, with the existing salary and fringe benefits system, there is little, or no, guarantee that this type of solution will provide the most efficient and effective answer for staff recruitment. As Tantuico mentioned, there is the possibility of a 'brain-drain' situation occurring, where trained auditors leave the audit institution or the public sector to join private accounting firms or industries.

The second option is to delegate sole responsibility for auditing public organisations to private accounting firms. The disadvantage of this option is that it might turn out to cost too much. Furthermore, there is a possibility of inconsistency in the audit services of private accounting firms and the danger of losing control over these firms, which may result in poor quality audit services. Finally, these private firms may not always be ready to deal with any request for a special audit assignment.

The third, and last, option is to change the existing salary and fringe benefits system to enable the audit institution and the public organisation to attract qualified and competent staff to undertake OA audit assignments.

Seeking the assistance of private accounting firms to perform some of the audit assignments might have effects on the salary and fringe benefits system, which could have a direct effect on the type and competence of the technical audit staff recruited by either the KAB or by other Kuwaiti public organisations.

XI A multidisciplinary technical staff:

In Kuwait, the audit act currently in force requires that all the KAB's technical staff responsible for carrying out audit assignments be university graduates, with a degree in either law or commerce. With regard to performing OA type of audit review by Qualified accountants, Normanton states that,

"There is no compelling reason, why state audit should be entirely conducted by qualified accountants, nor are there any strong reasons for supposing that a training in accounting is best calculated to develop the essential characteristic of state auditors, which is 'Flair'".³⁷

Furthermore, the results of the questionnaire revealed that the audit institutions and the internal audit staff of the public organisations found that accountants alone cannot perform OA investigations in a satisfying manner. Therefore, according to the UN publication "Public Auditing Techniques for Performance

Improvement,"

"The recruitment of auditors and analysts with multidisciplinary skills is a prerequisite for performance auditing [The term adopted by this research is OA]".³⁸

Consequently the KAB should review its recruitment policy and should start diversifying the skill of its technical staff if it intends to shoulder the responsibility of performing OA review. It should bring into its technical staff a wide range of specialists and consultants, then KAB should utilise the audit team approach as a means to overcome the barriers of knowledge in any particular area required for performing OA assignments. This approach can be a means of training for specialist staff and for auditors, and by adopting this audit team approach, KAB will not only reduce the cost of performing its OA assignments but will also enhance the credibility of its audit review in the eyes of the general public and government officials.

The major obstacle here is the audit act presently in force. It should be amended to permit the KAB to recruit specialists in areas other than commerce or law. It is important to note that the Bureau could appoint specialists in various areas, without changing the audit act, through the use of contract appointments [short-term employments] rather than direct and open recruitment.

XII. Improving the teaching and training programmes:

The literature on the UK NAO practices shows that this office recruits university graduates and puts them

on in-job-training schemes for a specific time, after which the graduates are required to sit for their professional qualifications. A similar practice, but on a wider scale, exists in Sweden where

"The National Audit Bureau [NAB] performs a training function in that many of its auditors leave the Bureau for jobs in other parts of the public sector. The NAB is supplying trained effectiveness auditors [The term adopted by this research is OA] for the rest of the Swedish public sector".³⁹

However, in the developing countries, including Kuwait, training programmes are either completely absent or they have minimal effect on developing the audit skill required for performing audit assignments.

Henry Butt and Bob Palmer acknowledge the importance of training programmes for the performance of OA reviews and consider the absence of these programmes to be as much of a barrier as weak government bodies and lack of motivation, all of which could hinder the adoption of OA techniques and also their performance. They state

"Many barriers must be overcome in order to achieve VFM, [The term adopted by this research is OA]. These include politics, weak governing bodies, tradition, lack of motivation, and lack of education and training programmes".⁴⁰

The American team from GAO, working with the Saudi Audit Bureau, explain why training programmes in auditing, especially OA type, are urgently needed in developing countries. They state

"In developing countries educational systems are... designed along the line of a road. The students learn through memorisation...."of the signs at the side of that road.

In the western countries, the inadequacies of such educational systems have been recognised and overcome for a long time. Consequently these countries are currently teaching their students through other new teaching techniques. The team state

".... in the western countries they are using a somewhat different educational system. There is not much emphasis put on lines along the road but more emphasis is put on case studies.... where people have to make comparisons, analytical comparisons.... gather information, synthesising information, analyse it and then often they come out with some kind of recommendations".

The team goes on to identify the type of training needed in developing countries, they state that few people have

"the background to perform operational type audits and it takes sometime to develop the experience that is necessary to perform operational audits.... It is sometimes difficult to teach somebody how to do it, and experience is probably the best teacher"

Therefore extensive training programmes, through the means of seminars workshops and on the job training in the area of some field of specialisation are needed to strengthen the capabilities of the technical staff presently working for the KAB to enable them to perform OA reviews. The UN publication determines some of the areas of specialisation needed in the developing countries, thus training programmes should

"....include training in programme and project analysis techniques, cost-effectiveness analysis, cost-benefit analysis, management analysis, management and cost accounting, variance analysis, programme and performance budgeting, statistics, management science, network analysis, planning methodology and relevant data processing techniques....

on-the-job training.... is a 'must' and should be deliberately coupled with training seminars and workshops".⁴¹

It is needless to say how such a training programme could help the traditional financial auditor, or even the new university graduate, to gain knowledge in subjects and fields of specialisation required for performing OA investigations.

In the State of Kuwait, the shortage of qualified staff is one of the major obstacles hindering the introduction of OA to the KPS, and which could later impede OA investigations programmes. The researcher believes that proper training programmes could help to overcome this obstacle.

"....in developing countries there was a shortage of properly trained personnel to carry out economic and efficient audit of public enterprises. Part of the problem could be solved by means of further training activities in that field".⁴²

There are some important implications for KAB and other public organisations in Kuwait regarding their training methods in the foregoing quotation. Training programmes should be carefully assessed and, whenever possible, supplemented by seminars, workshops and on-the-job training.

XIII Wider choice from which to select the President/Head of the KAB:

In Britain so far, every Comptroller and Auditor General has been selected from senior civil service staff working within the Treasury Department, although the British government believes there is no reason not to

look to other departments, or even to the private sector, for the right individual for this post. From the evidence taken at the British Public Accounts Committee, knowledge and experience of the financial system of the government, and of the way in which public business activities are conducted is considered to be the major factor in the selection of the Comptroller and Auditor General.⁴³

Canada, however, has probably the richest and most diversified experience in this area, as the first Auditor General was a member of the Canadian Parliament, while his successor came to office from the Department of Finance. The Canadian government has never hesitated to look for and consequently to select the Auditor General from within the Audit Office itself. In 1919 the Assistant Auditor General was appointed to hold Office until 1923, after which the Canadian government went outside the public sector and selected a new Auditor General from a private firm.⁴⁴

The situation in Kuwait is completely different. The government insist that the president of the Bureau should possess a solid background in law and have experience in the practice of the law, which could hardly be possessed by individuals other than supreme court judges. So, each president of the KAB came from the judicial sector of the government the only area from which the Kuwaiti government selects the president of the Bureau.

The government's decision to limit the selection of their choice to this sector can be justified only on the basis that the Bureau's present audit task is solely

directed towards adherence to laws and regulations. This necessitates that the president of the Bureau be familiar with current laws and regulations and that he possess adequate experience in their interpretation. However, should the KAB extend its audit activities to embrace the "3Es", and should it widen the scope of its audit review to include areas other than legality and regularity, then the basis for selecting the president should not be confined to knowledge of laws and their interpretations. Selection criteria should include other factors, such as knowledge of modern techniques i.e. computer science, knowledge of new analysis techniques i.e. cost/benefit analysis and cost-outcome analysis, the ability to turn raw data into workable recommendations, the ability to organise and co-ordinate the efforts of people from diverse backgrounds to work as a team and to produce tangible results. Therefore, importing OA to the KPS, particularly by KAB may well pressure the government to change the basis of its selection policy.

XIV Better Follow-up Systems:

The reporting of the audit findings should not be an end in itself, but should be used as a means to learn from past mistakes. On the basis of their past mistakes, the decision-makers should be able to draw useful conclusions and recommendations to guide their future decisions.

Generally speaking, the researcher believes that reports prepared on the basis of financial and regularity

audit are of limited use. The audit reports prepared by the KAB under the present audit act are not exceptions to this general role. The KAB's audit report is nothing more than a list of irregularities discovered by the KAB's auditors during any financial year and does not contain any conclusion or recommendation. The KAB's reports, since its establishment in 1964, show that although many of the irregularities listed there are repeated from one financial year to another, and although most of these irregularities are repeated in more than one government organisation, the KAB's report failed to highlight this fact.

In the other countries covered by this research, (apart from the UK), the reports prepared by their audit institutions not only present factual evidence to enable the audit recipient to understand the environment and circumstances within the audited public organisations, but also contain some recommendations to remedy the situation and correct irregularities. Furthermore, these audit reports are submitted to the legislative branch of their governments, who have the responsibility of monitoring whatever action the executive branch has taken or intends to take.

In the UK the House of Commons not only receives the audit report prepared by the National Audit Office, [NAO], but also monitors, through the activities of PAC, the steps taken or intended to be taken with regard to the NAO's report. Furthermore, the NAO's reports are used as a starting point for further investigation carried out

by the House or one of its committees in the following fiscal year.

These should have some implications for the KAB's reporting systems. In this regard the KAB should consider a better way to present its audit findings. It could, for instance, explicitly distinguish those irregularities which have existed for a long time, because of the bad follow-up system, from those which have just been discovered for the first time and could clearly state which of the reported irregularities are reported in more than one government organisation. The researcher believes that this technique could be used to put pressure on government officials of the audited organisations to correct the reported irregularities and to justify their position if no corrections are made. This technique could also serve to direct the attention of the members of the National Assembly, [NA], who do not have time to consider the KAB's reports thoroughly, to those cases where KAB itself failed to remedy the situation or to bring about the intended changes.

The KAB should present, in one section of its report, all irregularities which are repeated in other government organisations, with a list of the main cause(s) which contributed to such irregularities. Thereafter the KAB should correlate the findings of its audit investigations and should extract lessons from past mistakes for the possible benefit of other government units, as well as making recommendations for remedial action to the NA.

Another implication for the NA and its Finance and Economic Committee regarding their handling of the KAB's audit report, [see chapter three for details], is that they should give stronger support to the KAB's activities, making better use of KAB's reports and resources.

Finally, the present role of the KAB, in overseeing the activities and processes of implementation of its audit report, could be described as a negative one. The results of the questionnaire provide another implication here for the KAB, in that it should play a stronger, more active role in overseeing the government's efforts to act upon its reports by convincing the members of the NA of the usefulness of, and the benefit expected from, its reports.

XV Performance of OA by the KAB and the need for Standards:

In Kuwait, if the KAB intends to extend its audit investigation to embrace the 3Es type of examination, the Bureau should start working on the development of standards to govern its audit activities and the area of its audit investigation.

By standards, the researcher does not mean a set of procedures routinely performed by all the KAB's staff, (Cook-Book Approach), but rather, a set of rules to govern the auditor's activities to assure the audit recipients and general public of the competence of the auditors and the credibility of their audit examination.

These standards are developed for purposes such as governing practice and the relationship between the auditor(s), their clients, and their audit recipients. Of course, the researcher rejects the idea of making audit practices routine while fully supporting the idea of developing standards for the audit practices in Kuwait.

The literature reviewed shows that, as stated in previous chapters, the audit institutions in Canada, Sweden and the UK have been performing OA type reviews for a considerable time, although the audit environment is still without OA standards, which may reflect the fact that the development of these standards does not impede the performance of OA investigations in these countries. The researcher believes that Kuwait should not use their absence, or the difficulty in developing them, as an excuse not to introduce OA review to the KAB.

The researcher's opinion is that OA standards could be postponed until later but a set of financial and regularity audit standards is urgently needed. Developing standards for financial and regularity audit would be the easier task because the KAB, private auditing firms and other government organisations i.e. the Ministry of Finance, have the knowledge and experience in performing this type of audit necessary for setting up such standards. Furthermore, these standards could be used, later on, as stepping stones towards setting up OA standards, when the right environment had been established. However, it may be some time before OA standards can be set up, as such development depends on

knowledge and experience and understanding of factors such as the nature of OA; the accountability relationship of the government to the National Assembly and to the Kuwaiti public; the identification of the need for the OA audit; and the maturity of the management information control systems. As Jean-pierre Bosicclair states:

"with more and more experience in various types and sizes of organizations, it will be possible to develop a consensus on standards for this type [comprehensive auditing] of work.... much work remains to be done, however, before such standards can be defined".⁴⁵

Finally, the researcher believes that at the end of the day, special standards for OA review have to be developed, especially when OA investigations become the norm in the KAB's practices. The need for OA standards would become more urgent if the KAB decided to seek assistance from private auditing firms, by allocating some of its OA responsibility to them.

The researcher recommends that a board or committee be set up with responsibility for developing such standards. Institutions such as Kuwait University, the KAB, the Ministry of Finance, private auditing firms and the Kuwaiti Accounting and Auditing Association should be represented on the board. In order, to minimize difficulties and to overcome obstacles, the researcher would recommend that the board seek the assistance of international organisations working in the same field, such as supreme audit institutions, professional bodies i.e. Institutions of Chartered Accountants and other bodies with similar responsibilities.

The researcher expects that presenting OA techniques to the KPS and KAB will not be without obstacles, some of which have already been identified in the previous section. The discussion in the next section presents some of these obstacles and provides some recommendations as to how to deal with them.

Obstacles and Recommendations:

The following is the list of the major obstacles which could be expected to obstruct the introduction of OA techniques into the KPS and the KAB or confine OA investigations to certain activities and systems. These obstacles are:

- (1) The lack of specialised staff.
- (2) The present Audit Act.
- (3) Inadequate management information, control and reporting systems.
- (4) The lack of performance criteria.
- (5) The lack of a proper documentations system.
- (6) The lack of support of top government officials.
- (7) Human behaviour and the defensive attitude of government officials.
- (8) The lack of motivation.
- (9) The current status of the internal audit department.

The lack of specialised staff:

After an interview with one of the KAB's officials, it is the researcher's belief that the KAB is not only facing difficulties in recruiting adequate numbers of

auditors to perform financial and regularity audit but will also face a serious shortage when the time comes to recruit auditors who could perform OA investigations. Three factors are involved here:

- (1) The present salaries and fringe benefits do not help to attract or retain well qualified and experienced auditors.
- (2) In Kuwait and abroad, especially in those Arabian countries which supply the KAB and Kuwaiti public organisations with accounting and auditing staff, little or no effort is made to include these new audit techniques in university teaching of auditing. Kuwait and these other countries are mainly concerned with teaching "voucher audit".
- (3) The present audit act requires the KAB's technical staff responsible for performing audit review to be university graduates with degrees in law or commerce. As has been seen in the previous chapter, OA review requires staff with a multidisciplinary background and experience, so the audit act, in this regard, might become an obstacle if it is intended that the KAB's audit activities will include OA review. The researcher believes that a sound training programme and seeking the assistance of some private auditing firms could provide a practical solution to overcome this obstacle. Furthermore, the audit act should be altered to enable the KAB to recruit staff with degrees other than in law or commerce.

The present Audit Act:

Under the present audit act the KAB is not entitled to perform OA reviews but, as mentioned in chapter three, a broad interpretation of two articles of the act could allow the KAB to undertake some short, limited exercises. Such limitation in the audit act presently in force may hinder the process of the adoption and performance of OA investigations by the KAB.

Since, as has been shown earlier, the present Audit Act limits the KAB's power to recruit staff with diverse background and experience, the researcher suggests that a new audit act be drawn up to enable the KAB to perform OA review on a regular basis. Furthermore, this new audit act should clearly entitle the KAB to free access to records, books and other documents, to public officials as sources of information and to any other sources deemed necessary for the audit activities.

The researcher believes, on the basis of evidence gathered through personal interviews with members of the National Assembly, officials at KAB and some other government ministries, that amending the audit act currently in force should not constitute a major problem, especially if the Kuwaiti officials are convinced of the feasibility of granting the KAB the power to perform OA type of investigations, and are convinced of the benefits expected from the performance of such investigations.

Inadequate management information, control and

reporting systems:

Regardless of type, financial or otherwise, or where it is performed, in the private or public sector, auditing is heavily dependent on the audited organisation for the data necessary to the audit investigation.

The lack of certain types of information could not only hinder the audit activities but could also reduce the effectiveness of other monitoring systems. According to the UN publication "Public Audit Techniques", "The lack of cost and accounting data handicaps planning, budgeting and auditing in general and the development of performance criteria in particular".⁴⁶ The publication goes on to state that "Accurate and timely cost data, classified inter alia, by programme, activity and project, are essential for performance auditing [OA is the term adopted by this research]."⁴⁷

Therefore, the existence of a sound management information system helps the auditor to perform his duties, to meet the demands made on him by the audit recipients, and to render his services in the most effective manner.

The accounting and budgetary systems in the state of Kuwait constitute the two main components of the management information, control and reporting systems. As shown in previous chapters, both these systems are mainly directed towards producing information on what has been consumed or on the amount of money disbursed, which can contribute little, or nothing, to the planning and decision-making process. But the type of information

demanded by government planners and public officials is information on results achieved or output attained in comparison to planned, predetermined targets and standards. Rowan Jones and Maurice Pendlebury suggest a basis for better management information and monitoring systems. They state that

"..... the important contribution they [PPBS and ZBBS] can make it in producing budgeted and actual input which are explicitly matched at the budgeting and reporting stages with measurable outputs. Certainly, it is difficult to see how an efficiency audit can be carried out in many public sector organisations without an output-defined budget as prerequisite". 48

The researcher agrees in principle with Jones and Pendlebury that a better and more efficient management information and monitoring system should be adopted by the Kuwaiti government in order to enable the KAB and the internal audit departments to perform OA type of investigations. In other words, the researcher believes that the budgetary system should be changed, but not necessarily to either ZBBS or PPBS, as Jones and Pendlebury suggest. The change should be in the supply of information available to decision-makers to enable them to perform their duties optimally.

The accounting system used by the Kuwaiti public organisations should be modernised through the augmentation of the organisation's accounting departments by establishing special cost units within them. These units should be staffed by individuals capable of gathering data on actual costs and also of turning raw data into useful information; they should also be able to

perform, among other things, Cost/Benefit analysis and Cost-Outcome analysis as a means of assisting the decision-makers on the most appropriate course of action available to them.

The lack of performance criteria

Inappropriate and ineffective accounting and budgetary systems contributed directly to the difficulties faced in measuring performance in the KPS and these difficulties are compounded by the lack of performance criteria according to Francisco S. Tantuico:

".... in some countries like the Philippines and Kuwait, there is a strong need for well-defined work measurement units, cost standards, performance rates, and similar indicators of economy and efficiency".⁴⁹

The results of the questionnaire survey carried out among selected UK local and health authorities revealed that the two performance measurement criteria most in use there are the "Unit Cost" and "Expenditure Level". The researcher believes that if the Kuwaiti government altered its budgetary and accounting systems, as recommended here then this obstacle should automatically be removed.

The lack of a proper documentation system:

The interview with the American GAO team working with the Saudi Audit Bureau revealed two obstacles which are closely related to the management monitoring and information systems and are considered to be the essential bases of both. The first obstacle is the lack

of a proper documentation system; the other is that a lot of administrative decisions are made verbally and are not documented at all. The researcher believes that, to a large extent, these two impedimenta are common symptoms which exist in the KPS and which consequently could hinder the introduction of OA techniques into the KPS and the KAB.

The lack of support of top government officials:

In order to have an effective OA system capable of bringing about the intended changes, the KAB should have either the support of government officials in both the executive and legislative branches, or the backing of a powerful audit act which puts the KAB and its auditors in an extremely strong position. The latter would mean complete freedom for the KAB to criticise, and to enforce its findings on, government officials, which would not be easily accepted by those public officials. Such an Audit Act would require the government's cooperation, acceptance and approval, which executive branch, so far, is reluctant to show. Therefore, a powerful Audit Act backing the KAB would be difficult, if not impossible, to have in Kuwait, at least at present. Consequently, the KAB and its auditors are left with only one option; to seek the support of both the legislative and executive branches of the government. David Barrett's experience at the Lincolnshire County Council, where there is a lack of such support, bears out the fact that the auditor and the audit institution find themselves in a very difficult

position under such circumstances. He found that:

"There was a lack of commitment by members and officials generally to the concepts of VFM. With only two specialist members there was not enough weight in full committee meetings to carry decisions through. Action generated by the reports was slow ...".⁵⁰

Therefore, it is important to have some sort of commitment from government officials for the KAB's OA investigation prior to its commencement. The researcher believes that the amount of support and backing for the new audit system depends, to a large extent, on the form of the arrangements adopted by the Kuwaiti government for their new audit system. This has been discussed in the previous section.

Human behaviour and the defensive attitude of government officials:

Certain aspects of new changes such as the introduction of new budgetary, accounting and auditing techniques may not be easily accepted by the management and staff of the audited organisation and, some kind of opposition may arise in this case.

Normanton explains why the officials fight new ideas and techniques as follows:

"Change entails fear of the unknown or unfamiliar. The accustomed modes of work then appear to be the best, almost the only pattern of administrative efforts".⁵¹

This is described by Normanton as an attitude of "Conservatism". The conservatism, in some cases, can be disguised as support for new ideas, on the surface but reveals itself, especially where old traditions exist, in

unrealistic excuses not to go ahead with the new techniques, e.g., two interviewees, one from Saudi Arabia Audit Bureau and another Kuwaiti official at KAB, when questioned on the suitability of OA to the Kuwaiti environment, replied that "OA is a good technique which could solve a lot of problems but it's not the right time for introducing such changes". In other cases the officials' resistance takes the form of direct confrontation, as David Barrett found in Lincolnshire County Council. He states"

"Chief officers resisted changes recommended by producing counter reports in defence of current methods".⁵²

Therefore, a solution to this obstacle should be found prior to the introduction of OA review. Otherwise its performance will be hindered and the efforts and resources spent on OA investigations would be wasted. The researcher believes that a proper training programme and prior consultations with the officials of the audited government organisation could provide a practical solution to overcome this obstacle.

The lack of motivation:

The results of the questionnaire survey, and the personal interviews, revealed that unless the government units and their officials are encouraged to look for ways to achieved better economy and efficiency in their operations, the performance of OA investigation would be confined to an occasional limited exercises. Therefore, Kuwaiti officials in the different government

organisations should establish an effective system for promotion. Such a system should be capable of not only acknowledging, but also appraising and rewarding outstanding performance, especially that which could result in savings, reduced running costs for government activities, or achieving better economy and efficiency in the government operation.

Furthermore, the fieldwork illustrated how the budgetary system could be used as a means to promote government staff. Unfortunately the budgetary regulations in Kuwait do not permit government units to keep any savings realised by their efforts to achieve better economy, efficiency and effectiveness in their operations.

The current status of the internal audit departments:

In his fieldwork in Kuwait, the researcher observed that most government units do not have internal audit departments. Where these departments do exist, they are engaged in performing financial and regularity audit, and in helping other departments to overcome their staff shortages. In other words other departments look on the internal audit departments as a pool for extra staff. The researcher recommends that:-

- (i) an internal audit department be established at all government units,
- (ii) the role and responsibility of audit departments be clearly stated and communicated to all officials within the government organisation. Furthermore,

their role should be extended to allow the performance of OA investigations,

(iii) these internal audit departments be completely independent, attached to, and reporting to the highest post within the organisation.

It is difficult for any internal audit department to function effectively while it works within a restricted environment such as when it is a section within the department of finance.

Specific Recommendations

(A) From interviews with officials at Saudi Audit Bureau the researcher learned that their policy has been changed from one of stationing the Bureau's staff at different government units, to a new policy of auditing government units centrally from Riyadh. This shift of policy was due to the fact of that these auditors formed relationships with the staff of the audited government units, and consequently tried to conceal some serious audit findings to protect their friends. Additionally, during his fieldwork in Kuwait, the researcher found that the KAB's staff stationed at the Ministry of Public Health [five in number] did not work a single full day during the researcher's three week visit to the Ministry. Consequently, the researcher believes that the KAB's policy should be changed to enable the Bureau to utilize its resources more efficiently and effectively, perhaps by rotating the KAB's auditors stationed at different government units.

(B) In chapter two it was mentioned that the Ministry of Finance audits the KAB's accounts and records. It is likely that such a practice could harm the integrity of the KAB's activities in the eyes of the public and therefore, the researcher recommends that this be stopped immediately and responsibility for auditing the KAB's accounts be transferred to an independent entity i.e. private auditing firm. The selection of this auditing firm should be made by the National Assembly either working alone or jointly with the Council of Ministers.

(C) As seen in chapter two, the Ministry of Finance is solely responsible for the planning and setting up of the government accounting and auditing systems, and for the later monitoring of these systems in operation. Other institutions, such as Kuwait University, KAB and the Kuwaiti Accounting and Auditing Association, have, in the opinion of the researcher, better qualified staff and members in the field of accounting and auditing, resources which should be utilized by the Kuwaiti government.

(D) The researcher recommends the establishment of a new department attached to the Council of Ministers. Some of the duties of such a department should be:

- (i) to perform pre-audit type review, if the government decides to continue this type of audit and to submit a report to the Council on its activities in this area.
- (ii) to work jointly with KAB in developing appropriate training programmes for the staff of both KAB and

the internal audit departments of the various government units.

- (iii) to receive and follow-up the KAB's annual audit report on behalf of the Council of Ministers, and to recommend to the Council the appropriate action to be taken.
- (iv) to assist the government units in acting appropriately upon the KAB's report on the accounts of these units.
- (v) to perform any special type of audit requested by the government or the Council of Ministers.
- (vi) to co-ordinate audit activities with KAB for the purpose of a better planned coverage of the government activities and operations.
- (vii) to review the KAB's audit findings and to satisfy itself on the appropriateness and reasonableness of the KAB's recommendations.

In conclusion, for the purpose of the smooth introduction of OA to the KPS, the obstacles above must be overcome, either by adopting the afore-mentioned recommendations or by any other solutions which the government thinks more appropriate. In other words, unless the appropriate environment exists prior to the introduction of OA to the KPS, the results of such an introduction would be the complete failure of OA review to achieve its intended objectives.

Further Research

The main objective of this section is to highlight some areas where further research is intended to contribute to the advancement of, and to a better understanding, of OA techniques.

- (1) The scope of fieldwork of this research was limited to the performance of VFM audit in health and local authorities in the British public sector. In order to complete the study of the UK VFM audit approach in practice, the researcher believes that further research is needed in those areas of the UK public sector which have not been covered by the scope of this research i.e. police, water and sewage authorities, central government departments such as the education and social services departments and other public bodies.
- (2) Another possible area for further research investigations is the feasibility of importing and performing this type of audit by other developing countries.
- (3) The lack of OA standards seems to have resulted in the differences in the performance of OA investigations which were noticed during the fieldwork study in the UK health and local authorities. Therefore, the researcher believes there is a need for further research to determine the desirability of special standards for OA type investigations and consequently to lay down some

basis for developing such standards.

- (4) The development of performance criteria for the non-profit-making organisations (i.e. public sector organisations) is another area which needs further research.
- (5) The researcher believes there is a need for further research to determine the effects of the performance of the OA type of investigation on human behaviour and to determine how the performance of OA review would affect the relationships existing among different parties interested in the audited organisations i.e. management, staff, labour movement or union representatives. The researcher's belief is based on the lack of literature in this area and on the results of the fieldwork in the British public sector which showed that the performance of OA review, in many cases, either directly, or indirectly, affected the staff size of the audited organisation through reducing government expenditures.
- (6) This research showed that differences in views about OA practices among academics and practitioners do exist. This could have possible implications for further research aimed at developing a unified conceptual approach which might be accepted by both parties.

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