

## Auditing and Value for Money (Performance Management) Audits

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### Abstract

Value for Money (VFM) or performance management audits have become essential tools in both public and private sectors, ensuring that resources are utilized economically, efficiently, and effectively. This article explores the principles, methodologies, impacts, and challenges of VFM audits, drawing on empirical studies and international best practices. The analysis includes real-world examples, tables, and references to Scopus-indexed literature.

### Introduction

Auditing has evolved beyond traditional financial statement verification to include broader assessments of organizational performance, particularly through Value for Money (VFM) audits. VFM audits-also known as performance or efficiency audits-systematically evaluate whether organizations achieve their objectives with optimal use of resources, focusing on economy, efficiency, and effectiveness.

The increasing complexity of public sector operations, coupled with demands for transparency and accountability, has made VFM audits indispensable for governments and public institutions worldwide. These audits are also gaining traction in the private sector as organizations seek to maximize shareholder value and operational performance.

### Conceptual Framework: What is a Value for Money Audit?

A Value for Money audit is an objective, professional, and systematic examination of systems and procedures to ensure that resources are managed with due regard to economy, efficiency, and effectiveness. It is guided by three core principles:

- **Economy:** Acquiring resources of appropriate quality at the lowest possible cost.
- **Efficiency:** Maximizing output from given inputs; doing things right.



- **Effectiveness:** Achieving intended objectives and outcomes.

**Table 1: The 3 E's of Value for Money Auditing**

Principle	Definition	Example
Economy	Minimizing the cost of resources without compromising quality	Procuring office supplies via competitive bidding
Efficiency	Maximizing output from given inputs	Reducing project completion time using better project management
Effectiveness	Achieving intended outcomes and objectives	Meeting healthcare delivery targets in a public hospital

### Objectives and Scope of VFM Audits

The primary objectives of VFM audits are to:

- Assess whether public funds are spent economically, efficiently, and effectively.
- Promote accountability and transparency in resource utilization.
- Identify opportunities for improvement in management practices and service delivery.

VFM audits are conducted in both public and private sectors, though their application is more prevalent in government due to the stewardship of public resources.

### Methodology of VFM Audits

VFM audits follow a structured process, typically including:

1. **Planning:** Defining audit objectives, scope, and criteria.
2. **Fieldwork:** Collecting evidence through interviews, document reviews, and data analysis.



3. **Reporting:** Presenting findings, conclusions, and recommendations for improvement.

4. **Follow-up:** Monitoring implementation of recommendations.

**Table 2: Typical VFM Audit Process**

Step	Activities
Planning	Define scope, objectives, and criteria
Fieldwork	Data collection, interviews, observation
Reporting	Drafting audit report, recommendations
Follow-up	Monitoring corrective actions

### **Empirical Evidence: Impact of VFM Audits**

Studies have shown that VFM audits significantly contribute to:

- **Cost savings:** By identifying wastage and recommending more economical practices.
- **Timely execution of projects:** Through improved project management and oversight.
- **Quality improvement:** By ensuring that projects and services meet established standards.

For example, a study in Nigeria found that VFM audits had a significant positive effect on government cost-saving objectives, timely project execution, and the quality of projects delivered.

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Objective	Effect of VFM Audit (Pearson Chi-square)	Significance
Cost Saving	Significant	Yes
Timely Execution	Significant	Yes
Quality of Projects	Significant	Yes

**Table 3: Impact of VFM Audits in Government (Survey Results, Edo State, Nigeria)**

**Challenges in Implementing VFM Audits.** Despite their benefits, VFM audits face several challenges:

- Lack of clear performance criteria and benchmarks
- Limited auditor expertise in non-financial performance assessment
- Resistance to change within audited organizations
- Insufficient independence of internal audit functions

**Case Study: VFM Auditing in New Zealand:** New Zealand has been a pioneer in implementing VFM audits in the public sector, focusing on improving the efficiency and effectiveness of government programs. The Office of the Auditor-General regularly conducts VFM audits to assess whether public resources are being used as intended and to recommend improvements. Recommendations and Best Practices

- Embed VFM principles in all organizational processes
- Enhance auditor training in performance management and non-financial assessment
- Develop clear, measurable criteria for performance evaluation
- Ensure the independence of internal audit functions
- Promote a culture of accountability and continuous improvement



Lessons from Real-World Audit Case Studies: Real-life audit cases highlight the critical importance of robust auditing processes to ensure value for money and prevent financial mismanagement.

- **Toshiba Scandal (2015):** Despite having a sound corporate governance structure, Toshiba’s internal audit failed to detect earnings inflation of \$1.2 billion over five years. This case underscores the need for proactive and effective internal audits that not only check compliance but also identify financial irregularities early.

- **Ernst & Young Audit Failures:** EY was fined \$11.8 million by the SEC for failing to detect fraudulent activities over several years, illustrating that even leading audit firms can falter without rigorous due diligence and skepticism, especially in high-risk areas.

- **WorldCom Fraud:** Arthur Andersen’s failure to uncover massive accounting fraud at WorldCom led to one of the largest corporate scandals, prompting regulatory reforms such as the Sarbanes-Oxley Act to enhance audit accountability and corporate governance.

- **Success Stories - Apple and Microsoft:** Both companies exemplify transparency and strong internal controls. Apple’s commitment to “doing the right thing” and Microsoft’s consistent financial reporting highlight how robust audit processes can build trust and accountability.

- These cases demonstrate that VFM audits must go beyond financial accuracy to include ethical vigilance and comprehensive performance evaluation. **Empirical Evidence on VFM Audits and Service Delivery Studies** conducted in various countries reveal the positive impact of VFM audits on public sector accountability and service delivery:

- **Bungokho Sub County, Uganda:** A case study showed that VFM audits promote accountability, reduce corruption, and improve service delivery by ensuring funds are properly allocated and expenditures monitored. Auditors’ independence and competence were crucial for effective audits.

- **Ghana:** Research found that economy, efficiency, and effectiveness principles of VFM auditing positively influence public sector accountability.

• **Nigeria (Ebonyi State):** While economy and effectiveness principles showed no significant effect on local government service delivery, efficiency was positively correlated with improved service delivery.

• **Donor-funded NGOs:** VFM audits significantly impacted funding and utilization of funds, improving project execution quality. These findings confirm that VFM audits are vital tools for enhancing financial discipline and operational performance in public organizations.

**Challenges in VFM Audit Implementation.** Despite the benefits, several challenges hinder effective VFM audits:

• **Lack of Clear Performance Criteria:** Without measurable benchmarks, assessing efficiency and effectiveness becomes subjective.

• **Auditor Independence and Competence:** External pressures and lack of specialized skills in performance auditing can compromise audit quality.

• **Resistance to Audit Findings:** Organizations may resist implementing recommendations due to cultural or political reasons.

• **Limited Resources:** Inadequate funding and technical support restrict the scope and depth of VFM audits. Addressing these challenges requires strengthening audit frameworks, continuous auditor training, and fostering a culture of accountability.

**Value for Money Audit Methodologies and Tools:** VFM audits employ various tools and techniques:

• **Preventive Controls:** Measures such as restricting physical access to cash prevent risks before they occur.

• **Performance Metrics:** Use of key performance indicators (KPIs) aligned with economy, efficiency, and effectiveness principles.

• **Data Analytics:** Advanced data mining and forensic techniques help detect fraud and inefficiencies.

• **Stakeholder Engagement:** Involving management and stakeholders ensures audit relevance and facilitates implementation of recommendations.

### Recommendations for Enhancing VFM Audits

- Develop **standardized performance benchmarks** for consistent evaluation.
- Enhance **auditor training** on performance management and fraud detection.
- Promote **auditor independence** through legal and organizational safeguards.
- Increase **transparency** by publishing detailed audit reports accessible to the public.
- Foster **organizational culture change** to value audit findings and continuous improvement.

**Summary Table: Key Lessons from Audit Case Studies**

Case Study	Key Issue	Lesson Learned	Outcome/Impact
Toshiba (2015)	Earnings inflation undetected	Need for proactive internal audits and ethical vigilance	Leadership resignations; reputational damage
Ernst & Young	Repeated audit failures	Importance of due diligence and focus on high-risk areas	\$11.8 million fine; regulatory scrutiny
WorldCom	Massive accounting fraud	Auditor skepticism and ethical responsibility critical	Regulatory reforms (Sarbanes-Oxley Act)
Apple Inc.	Strong internal controls	Transparency builds investor trust	Consistent financial performance
Bungokho Sub County	Auditor independence & service delivery	Auditor competence and independence improve service delivery	Reduced corruption; better resource allocation

### Conclusion

Value for Money audits are critical for ensuring that organizations, especially in the public sector, achieve their objectives while making optimal use of resources. Their role in promoting accountability, cost savings, and service quality cannot be overemphasized. As public expectations for transparency and efficiency grow, the importance of VFM audits will only increase.

### References

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