VALUE FOR MONEY AUDITING
IN THE STATE OF VICTORIA: THE EARLY PERIOD

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Abstract

This article examines whether the VFM audit function of the Victorian Auditor-General’s Office (VAGO) emerged due to the New Public Management (NPM) reforms or VAGO’s internally driven developments of the public sector audit program. The conclusions are that the VFM audit function has surpassed the basic components of economy, efficiency and effectiveness and has become a more powerful audit technique. We conclude that our research evidence supports three main reasons that the VFM audit emerged, developed, and sustained. They are the NPM-led government reform programs, the Auditor-General’s idiosyncratic influence, and contemporary development of public sector audit technologies within the State Audit Offices. The VFM audit practice does not have a universal methodology. This study shows that the VFM audit function differs from one State Audit Office to another due to idiosyncratic influences and external political forces. The VFM audit function is almost similar to a program evaluation carried out by an independent officer directly reporting to the Parliament.

Keywords - Value for Money audit (VFM), New Public Management (NPM), Public Sector Audit, VAGO, PAEC, Victorian Parliament.
1.0 Introduction

This research paper examines whether the Value for Money (VFM) audit function of the Victorian Auditor-General’s Offices (VAGO) emerged and developed due to the demand for public sector audit derived from New Public Management (NPM) reforms or whether the VFM audit was developed due to VAGO’s internally driven development of the public sector audit program. This paper was developed under the research themes of ‘auditing as a socially-constructed activity’ (Humphrey and Mozier, 1990) and ‘critical imagination to the field of financial auditing and to the role of auditing in producing legitimacy’ (Power, 2003). This paper explains how the VFM audit function of VAGO has been developed, sustained and moulded from 1982 to 1995. We attempt to explain the emergence of the VFM audit function as an interplay between social and political processes (Burchell et al, 1980), not purely as a technical phenomenon. Therefore it is vital to highlight the importance of this kind of research, highlighted by Humphrey and Mozier (1990, p. 219) as follows:

> it is our view that more fruitful progress in understanding the nature and operation of the audit process can be achieved by studying the auditing as a socially constructed, contextually dependent phenomenon, capable of serving a variety of roles and functions.

This approach to research in auditing was further expanded by Power (2003, p. 28) as follows:

> very little is known about auditing in practical, as opposed to experimental, settings. Accordingly, it is appropriate to explore the modest but important extension of the ‘contextualist’ and one might say, ‘critical’ imagination to the field of financial auditing and to the role of auditing in ‘producing legitimacy’.

We examine the research question with the above two themes. To answer whether the VFM audit has emerged and developed due to the NPM reform programs, we examine the broader political, social and economic forces that surround the VFM audit function of the State Audit Office (SAO). The second part of the research question deals with the contemporary development of the VFM audit function within the SAO. To answer this part of the research question, we examine the development of the audit mandate, the Auditor-General’s independence, audit technologies and audit processes and VFM audit reports. We attempt to explain how the VFM audit function has progressed from the margins of accounting to the centre stage of public sector accounting with this approach.

It has been noted that there is a need for accounting and auditing research that addresses questions such as how accounting technologies emerge from social, political and economic forces (Burchell et al, 1980, p. 22). Burchell et al (p. 23) argue that there should be historical accounting research studies to answer specific questions:

> There is, we think, a real need for more historical studies of the development of accounting. Just how has accounting come to function as we now know it? What social issues and agents have been involved with its emergence and development? How has it become intertwined with other aspects of social life? And what consequences might it be seen as having had?

Various studies (Burchell et al, 1985, Loft, 1986, Robson, 1994, Radcliffe, 1999, 1998, Gendron et al, 2001, 2008) have addressed this need for research on the emergence of the accounting and auditing craft. Despite these studies, Miller (1998, p. 618) reminded the academic community of the need for accounting research studies which address how the accounting technologies appear at the margins of accounting. Miller (p. 618) argued that by looking at the margins of accounting and how accounting technologies have move into the
centre stage of accounting, the academic community could understand how the accounting body has formed and transformed. Even though there are studies on the emergence of accounting technologies, Hopwood (2007, p. 1365) has recently argued that accounting research has become insufficiently innovative and increasingly detached from the craft. Hopwood (p. 1370) also pointed out that accounting researchers tend to focus on areas identified by previous researchers instead of taking catalyst roles. Hopwood’s (p. 1370) comments are worth repeating:

Faced with such a complex and exciting agenda, increasingly accounting research is being seen as too cautious and conservative, too rigid and traditional, and insufficiently attuned to grapple with the new and to embrace novel insights and bodies of knowledge. Rather than being excited about the emerging gaps in our knowledge, it is as if the academic accounting community prefers to focus on the leads that arise from within the existing research traditions. The dynamic for change and transformation that emerged in the early Chicago days is seemingly no longer with us.

We attempt to address this highlighted gap in current accounting and auditing research. Much of the previous work on VFM auditing has tended to take an overview or general approach, comparing respective audit mandates and the broad focus of VFM auditing activity. However, it is also clear that although VFM focuses on issues of economy, efficiency and effectiveness there has been relatively little work that explores the diversity in VFM audit practices among different countries or even within one country with a multi-jurisdictional structure such as Australia. This paper seeks to move beyond the focus on mandate or legislative frameworks to examine the evolution of the practice of VFM auditing of the VAGO\(^1\) from its implementation in 1982 until 1995. We explore how the VFM audit function has been developed, moulded and sustained (terms used by Parker and Guthrie, 1999) during the first 12 years of VFM auditing under three Auditors-General, examine the differences between the conceptual framework of the VFM audit and the actual audit reports outcomes, and compare the recent findings (Radcliffe, 1998, 1999, Gendron et al, 2001, 2008, Skaerbaek, 2009) as to the VFM audits of other state jurisdictions with the VAGO’s VFM audit practice.

We have selected the VAGO in the State of Victoria as the research context for this study as Victoria was one of the pioneering States in Australia to adopt the NPM reforms. The VAGO provides a unique example of VFM audit function developed along parallel lines to the Canadian ‘Comprehensive Audit’ model. The State Government of Victoria has given great prominence to the VFM audit function of the VAGO. The State Government allocated $13.9 million in the 2009/10 financial year for the VFM audit work of the VAGO (PAEC, 2010, p. 23). This is a longitudinal research study covering a period from 1982 to 1995. The VAGO submitted the first VFM audit report to the Victorian Parliament in June, 1982. The Victorian Parliament gave the specific audit mandate to conduct the VFM audits to the VAGO by the section 16 of the Audit Act 1994. The VAGO has submitted its early VFM audit reports to the Victorian Parliament as special audit reports under Section 48 of the Audit Act 1958. The important historical events of the development of the VFM audit at the VAGO are shown in the Table 1:

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\(^1\) VAGO is one of the State Audit Offices (SAO) of Australia. Australia has three layers of public sector administration, namely Federal Government, State Governments and Local Government. There are nine SAOs in Australia. They are in Northern Territory, New South Wales, Queensland, Western Australia, South Australia, Tasmania, Australian Capital Territory (ACT) and Victoria. The Australian National Audit Office (ANAO) works as the state auditor for the Commonwealth government entities.
<table>
<thead>
<tr>
<th>Date/Year</th>
<th>Event</th>
<th>Auditor-General</th>
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<tbody>
<tr>
<td>1976</td>
<td>B. J. Waldron was appointed Auditor-General of Victoria</td>
<td>B. J. Waldron</td>
</tr>
<tr>
<td>1977 to 1982</td>
<td>Rationalisation of the audit process and policies, e.g., introduction of comprehensive audit methods, etc</td>
<td>B. J. Waldron</td>
</tr>
<tr>
<td>June, 1982</td>
<td>Publication of the first VFM audit report as a Special Report No. 1 under Section 48 of the Audit Act 1958</td>
<td>B. J. Waldron</td>
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<tr>
<td>1985</td>
<td>Issue of the first annual report of the VAGO</td>
<td>B. J. Waldron</td>
</tr>
<tr>
<td>1986</td>
<td>Appointment of C. Humphry as Auditor-General</td>
<td>C. Humphry</td>
</tr>
<tr>
<td>1987</td>
<td>Implementation of the first five year Corporate Plan by the VAGO from 1987 to 1991.</td>
<td>C. Humphry</td>
</tr>
<tr>
<td>1988</td>
<td>Appointment of C. A. Baragwaneth as Auditor-General</td>
<td>C. A. Baragwaneth</td>
</tr>
<tr>
<td>1990</td>
<td>Audit (Amendment) Act 1990 passed, granting a clear mandate to the VAGO to conduct VFM audits. This revision implemented Section 48 A of the Audit Act 1958.</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>August 1991</td>
<td>Publication of the first Victorian Performance Audit Methodology Manual (VPAM)</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>1994</td>
<td>Granting of a clear VFM audit mandate to the VAGO by the Victorian Parliament thorough the Audit Act 1994.</td>
<td>C. A. Baragwanath</td>
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</table>

It is clear from general literature on public sector reform in Australia and from the work of the development and evolution of VFM auditing, that there were significant differences in the development of VFM between the federal jurisdiction and between the states. In particular the state of Victoria is often used as a contrast to the federal jurisdiction and at times has led the federal ANAO\(^2\) in the development of VFM auditing practices. We argue that by focusing on the evolution of VFM auditing in the state of Victoria a richer insight can be gained into the nature of public sector audit changes in Australia. Victoria has a well-established 25 year history of VFM auditing. Having tabled the first VFM audit report in June, 1982, the VAGO adopted a VFM audit model which was different from that adopted by the ANAO (Glynn, 1985, Yule, 2002, Hamburger, 1989). With the exception of Hatherly and Parker (1988), relatively little attention has been paid to the VFM work conducted within the Australian states.

Politically and structurally there were also major changes in public sector auditing in Victoria. The VAGO was restructured by the Kennett government in a manner similar to the State Audit Office reforms applied in New Zealand (English, 2003). As part of these reforms, the VAGO was divided and reformed as two organisations, namely the VAGO and Audit Victoria. The Victorian Auditor-General’s role became that of a facilitator between the Victorian Parliament and the auditors (English, 2003). Many of these changes were reversed by the subsequent Labor government in 1999. The VAGO audit mandate was reverted back to the Audit Act 1994 in 1999. However, it is clear that the VAGO is an exceptional example

\(^2\) The Australian National Audit Office (ANAO) is the Federal Government audit office based in Canberra, Australia. ANAO was formerly known as the Australian Audit Office.
as it has experienced changes in the person of the Auditor-General and has also been subject to broader institutional forces associated with the NPM reforms.


The provisions of the Victorian Audit Act relating to performance audits have been widened by Parliament over the years in recognition of the increasing attention given to such audits in the Victorian Auditor-General’s Office (VAGO) and its demonstrated competence and record in their conduct. It is now a feature of VAGO’s audit work for which it has received external commendation and recognition from its peers in Australian and overseas jurisdictions.

This matter highlights the fact that the Victorian Auditor-General has been considered an independent expert on the VFM audit function by the executive of the State Government.

This paper introduces the notion of VFM auditing. Past research indicates that defining the VFM audit is a difficult task, in the same way that it is difficult to indentify differences between the VFM audit practices and the conceptual framework. We do not attempt to define the VFM audit. We analyse some research studies in order to summarise the conceptual framework of the VFM audit. A summary of this literature review is given below.

The questionable nature of the definitions ascribed to the VFM audit can be illustrated by considering the definition given by the VAGO in its first Victorian Performance Audit Methodology manual (VAGO, 1991, p. 1-6):

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

This definition could be interpreted as describing any non-financial audit conducted by the VAGO as a VFM or performance audit (PA). That interpretation is questionable as it is too broad as a definition of the VFM audit. Lindeberg (2000) analysed texts on auditing and evaluation practices to determine whether auditing is distinct from other evaluation practices. To explore his research objectives he compared the VFM or performance audit with financial audits and program evaluations. Lindeberg identified the VFM audit or performance auditing as follows (Lindaberg, 2007, p. 338):

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

Lindeberg suggested that the financial audit and performance audit do not have similar characteristics but performance auditing and program evaluation do have similar characteristics. He maintained that the financial audit, performance audit and program evaluation lie on a horizontal continuum. These three functions are located at three different places on this continuum, with performance auditing and program evaluation being close together and financial auditing far removed. Barzelay (1997, p. 237) expressed a similar argument in explaining the VFM audit. Barzelay maintained that the performance audit is not a type of audit; rather it is program evaluation and is conducted in a manner resembling auditing.

A particularly confusing aspect of VFM auditing is that so many different terms have been used. Do these terms represent something different or are they all describing essentially the same thing? In his review of the technology across the UK, Canada, Australia, New Zealand,
the USA and Sweden, Glynn (1985) used the general term of VFM auditing to cover the range of practices and terminology that he described. Parker (1986) reviewed the literature and practice of VFM auditing for the Australian Accounting Research Foundation. Parker (p. 61) indicated that although terms such as VFM, operations and operational audit, performance audit and management audit have been variously employed in theory and practice, the evidence he examined quite clearly pointed to their sharing a common basic definition founded upon the concept of economy, efficiency and effectiveness. Drawing from this, Parker (p. 61) argued that a VFM audit was any audit that attempts to evaluate organisational performance based upon the three criteria of economy, efficiency and effectiveness, which he detailed in the following terms:

- Economy has been defined as the acquisition of human and material resources of appropriate quality and quantity at the lowest reasonable cost.
- Efficiency has been defined as the use of given set of resources which maximises associated outputs at minimum total cost, or the use of minimum input resources for a predetermined level of output.
- Effectiveness has been defined as the degree to which predetermined entity objectives for a particular activity or program are achieved.

Power (1997, p. 50) also defined the VFM audit with the above characteristics. From the work of Glynn (1985), Parker (1986) and Power (1997) it seems clear that although a range of different terms are used across different countries (and sometimes within the same country), VFM auditing is an acceptable general term, and all the different practices are centrally concerned with evaluating the economy, efficiency and (sometimes) the effectiveness of state practices and use of tax-payers’ funds. However, although the concepts and core focus show similarities, it is also clear that a range of different practices have been used to assess and evaluate the questions of economy, efficiency and effectiveness.

In its inquiry into Victoria’s Audit Act 1994, the Public Accounts and Estimate Committee (PAEC) of the Victorian Parliament recognised the VFM audit or performance audit function as a unique audit activity carried out by the State Audit Offices. These comments were stated (PAEC, 2010, p.23):

There is no direct equivalent in the private sector to performance auditing, as undertaken by Auditors-General in the public sector. While certain specialised private sector consultancy exercises may exhibit some similar characteristics, there is little private sector audit work that reports publicly and independently on a recurring basis on the economy, efficiency and effectiveness of management of performances. The professional discipline of performance auditing is a distinct public sector function, with Auditors-General the leading proponents of the discipline.

This paragraph clearly highlights the importance and the mandate of the VFM audit function. The VAGO identifies the VFM audit as a performance audit. In this paper we use the generic term ‘VFM audit’ to identify the performance audits conducted by the VAGO.

This paper reviews the extensive existing literature on VFM auditing within the Australian federal jurisdiction and the limited literature on VFM auditing within the Australian States generally and the State of Victoria in particular. The empirical base is a review of 18 of the VFM audit reports presented to the Victorian Parliament from 1992 to 1995 and of the VFM audit methodology manuals. We have also reviewed the corporate plans, annual plans and annual reports of the VAGO. Within the existing literature on the place of VFM auditing, a debate has emerged. On one hand some authors (Hamburger, 1989, English, 2003, 2007) have argued that the development and evolution of VFM auditing is a relatively idiosyncratic
development dependent upon the personality, values and goals of a given Auditor-General. On the other hand it has been argued that the evolution of public sector auditing and VFM in particular is a response to broader institutional forces (Funnell, 1998). We argue that this question can only be effectively addressed by exploring the evolving nature of the practices as reflected in the audit methodology manuals, corporate plans, annual plans, and annual reports and in the published VFM reports of VAGO. Although some consideration in the existing literature has been given to published VFM reports no one has previously examined this in relation to the VFM audit methodology manuals and other confidential technical documents such as field audit files and planning documents.

We argue also that the relationship between public sector reform and the practices of VFM audit have received little research attention. Many OECD countries have experienced public sector reform, with Australia often cited as a leading case. Some authors have described this trend as ‘new public management’ (NPM) (Hood, 1991, 1995), with a growth of managerialism and a clear movement towards downsizing, outsourcing, benchmarking and other forms of performance measurement (Pollitt and Bouckaert, 2000, p. 199). Therefore, we specifically address the research questions as to whether the VFM audit function of the VAGO has emerged out of social, political and economic forces or whether the VFM audit function has been developed as part of the explosion of the public sector audit function and technology.

To address the research question and connect it with the research method, we utilise the theoretical framework of the ‘Action at a Distance’ concept (Latour, 1987, Law, 1986, Robson, 1992, 1994). The major theme of this paper is the development of the VFM audit function of a State Audit Office. This process involves various actors and ‘centres of calculation’ (Latour, 1987). The actors in this process are the general public, the Victorian Parliament, State Government entities and the VAGO. These actors and their actions are connected together by ‘inscriptions’. These ‘inscriptions’ are the VFM audit reports, planning documents, VFM audit manuals and audit files. Gendron et al (2001) argued that the VFM audit reports act as mirrors that reflect the State Audit Office’s activities. Therefore the theoretical construct of ‘Action at a Distance’ provides us with the framework to narrate this story of the development of the VFM audit function at the VAGO.

This paper is organised as follows. Section two is a research summary of NPM, the audit explosion and public sector audit research justifying the need for research studies of the emergence of the VFM audit as an accounting craft. Section three explains the research method. Section four explains the adoption and justification of the theoretical framework ‘Action at a Distance’. Sections five is devoted to analysing and summarising the VFM audit reports, planning documents, audit manuals and annual reports of the VAGO. We provide our research conclusions in section six.

2.0 Need for Value for Money Audit Research

The VFM audit research literature can be categorised or classified into three major research areas. The first category is technological developments of the VFM audit, the second category is institutional and political developments of the VFM audit, and the third category is public sector reforms and consequent rise of the public sector audit and VFM audit. Many of the technological developments of the VFM audit are based on developments from the State Audit Office of the Province of Alberta, Canada (Radcliffe, 1998, 1999, Gendron et al, 2001, 2007).
Radcliffe (1998) explored the VFM audit function of the State Audit Office in Alberta, Canada to examine how accounting and auditing technologies were inserted into the wider area of practice. Radcliffe argued that new accounting technologies are embedded in the wider area of practice due to social, political and economic needs and the development of contemporary audit practices and technologies in the environment. In a subsequent research paper, Radcliff (1999) observed three VFM audits, as they were carried out. Radcliffe (1999) concludes that as an accounting technology, the VFM audit is a socially grounded function which does not have universally similar applications to other state jurisdictions. Radcliffe’s major findings are that VFM or efficiency audit reports are given high propriety by government officials, parliament, the general public and the press. There is a general belief, external to State Audit Offices, that VFM is supported by highly technical audit techniques and guidelines such as audit manuals, audit standards and procedures. Radcliffe concluded, however, that the actual VFM audit work was not heavily supported by comprehensive audit technologies or procedures. He suggested that the efficiency audit or VFM audit did not have universally applied common practice. Efficiency audit outcomes have been constructed based on the environment in which they operate and on other surrounding sociological factors. On the basis of these contextual factors the auditors determine what efficient practice is or is not. This indicates that the VFM audit function is a malleable masque. These findings are in line with those of Guthrie and Parker (1999). Radcliffe’s (1999) study is somewhat similar to Pentland’s (1993, p. 605) attempt to understand the question of what auditors do when they are on-site with a client. The basic difference is that Radcliff (1999) studied a team of state auditors on VFM audit while Pentland (1993) studied a team of financial auditors.

Gendron et al (2001) studied the changing role of the Auditor-General of the Province of Alberta, Canada, from traditional financial auditor role to the audit of efficiency and effectiveness of government programs. They also studied how this changing role impacted on the perception of the independence of the Auditor-General. Gendron et al concluded that the Auditor-General of the Province of Alberta worked as a management consultant on best practice recommendations as part of the NPM reforms. Gendron et al (p. 287) argued that the State Audit Office’s annual report, the main public document that results from the auditing process, is the main source of information that citizens can use to assess whether or not the officer’s role is consistent with society’s boundaries of independence. The authors concluded that the Auditor-General maintained a delicate balance between independent auditor and management consultant and that the State Audit Office had compromised its independence by promoting the government agenda of the NPM framework.

In subsequent research, Gendron et al (2007) examined how the State Audit Office of the Province of Alberta established its claims to expertise in measuring the performance of provincial government departmental operations. The second objective of that research was examination of how the State Audit Office acquired expertise in measuring government performance. The authors concluded that the State Audit Office of Alberta established its claims to expertise by building up networks, developing audit manuals and audit documents, and exporting that knowledge base to a wider network that they built. Gendron et al also concluded that the State Audit Office of Alberta established its claims to expertise by assisting the Government of Alberta to operate in a ‘businesslike manner’. Furthermore, they commented that the State Audit Office of Alberta was prevented from commenting about government policy. This restriction has similar characteristics to the Auditors-General’ mandate of the ANAO and State Audit Offices in Australia.

Power (1997) maintained that a central characteristic of society as a whole has been the rapid growth and social dominance of practices of inspection and audit. From a UK perspective, the
rise of VFM audit is seen as a central part of the NPM reform agenda (Power, 1997). Power maintained that the managerialist references to performance measurement and the hollowing of the state associated with the more economic aspects of the reform process both led to greater demands for audit as embodied by the VFM growth (p. 44). Funnell (1998) seems to indicate that Australia experienced similar forces leading to the growth of the VFM audit function within the Australian federal jurisdiction. Therefore it would be reasonable to expect that there is a strong link between the NPM reforms and the growth of VFM auditing. Yet Power (1997, p. 51) noted that the VFM audit is a constantly evolving construct shaped by available technologies, program demands and key assumptions. Examining different reform elements and different state jurisdictions could provide deeper insights into how that relationship operates, particularly when attention is paid to the actual VFM practices and the technical methodologies.

From a more international perspective similar themes emerge. Pollitt (2003) explored VFM audit practices in the five supreme audit institutions of Finland, France, The Netherlands, Sweden and the UK. Pollitt’s objective was to document and explain the key strategic choices faced by the supreme audit institutions in relation to the VFM audit function. In particular, Pollitt (p. 158) focused on the methods used, the criteria applied, the products generated by VFM audits and the nature of the performance auditor or VFM auditor’s craft. Pollitt (p. 164,) categorised the VFM audit report findings as reflecting four roles: the public accountant, the management consultant, the scientific or research based organisation and a judge or magistrate. This showed that the VFM audit function is no longer just a compliance technology but has often embraced managerialist aspects of NPM reforms.

Hamburger (1989) documented the development of VFM auditing in the federal ANAO from 1974 to 1987, focusing on how the three Auditors-General who worked within that time span shaped the VFM audit function of the ANAO. Hamburger (1989) argued that an Auditor-General’s personal attributes and thinking shaped the VFM audit function. Funnell (1998) extended Hamburger’s work, focusing in particular on the struggle between the executive government and the Auditor-General of Australia. Funnell reviewed the period from 1978 to 1984 and drew on internal ANAO documents to explore the methods used by the executive government to limit or curtail the Auditor-General’s review of government accountability and the VFM audit function. Funnell argued that whereas the VFM audit was seen, within the ANAO, as a more powerful form of audit, it was also seen as intrusive and a potential threat by politicians. Guthrie and Parker (1999) reviewed the ANAO’s VFM work for a 25-year period, dividing it into five periods. Guthrie and Parker concluded that the VFM audit functioned as ‘a malleable drama’. Jacobs (1998) attempted to document the evolution and development of the VFM audit process in New Zealand from the early 1970s to the late 1990s. Jacobs concluded that the State Audit Office had become a facilitator and advisor to the parliamentary committees and New Zealand Treasury on NPM reform programs. English (2003) examined the controversial reform program of the Victorian Audit Office in Australia carried out by the Kennett Government from 1992 to 1997. English (2003) argued that the stripping and curtailing the Victorian Auditor-General’s audit mandate was an act of political vengeance under the guise of NPM reforms.

To summarise, all the above studies of VFM auditing, except for Radcliffe (1998, 1999) Gendron et al (2001, 2008) and Skaerbaek (2009), are historical studies based on published State Audit Offices’ VFM audit and annual reports. We argue that adequate research has been carried out on the output side of the VFM audit function. However, no previous research has been carried out examining the ‘backstage’ practices (Power, 2003, p. 379) of State Audit Offices. We have also observed that audit technologies such as Risk Based Audit (RBA)
methods have been studied in large accounting firms (Robson et al, 2007, Khalifa et al, 2007). Yet few researchers have examined financial audit methodologies and VFM audit methodologies and their relevance to the development of the audit jurisdiction and expertise in State Audit Offices, especially with reference to Australia. It is also important to us to understand the transformation of the state auditors’ role. Therefore, we attempt to fill these research gaps in the academic literature.

We will explain how the VFM audit function emerged as an accounting craft within the social and political process. None of the previous studies of VFM audit practices has examined how the abstract knowledge and audit planning process has helped to bring the VFM audit function from the margins of accounting and to establish it as core audit activity (Miller, 2007). This study therefore examines VFM auditing as an accounting and auditing craft in action. The study also examines institutional strategies adopted by State Auditors in order to enhance the audit mandate and legitimacy of the public sector audit. The paper contributes to the literature and theory by explaining how the VFM audit function as an accounting system arose out of the interplay of political processes both within the organisation and at its interface with dominant external agents (Burchell et al., 1980, p. 22).

3.0 Research Method

We have applied content analysis as the main research method, examining documents, interviews, informal conversations with designated officials of the VAGO, examination of closed VFM audit files, email communications with former and present senior officials of the VAGO and ‘hanging-around’ practical audit knowledge (Robson et al, 2007) to build up the facts and narrative of this research. These documents studied include planning documents (corporate plans, annual plans and business plans), published VFM audit reports, annual reports, Audit Acts, and audit methodology manuals. Gendron et al (2001) described the audit reports and annual reports as mirrors reflecting the activities of the State Audit Office. Skaerbaek (2009, p. 5) identified audit reports as devices of problematisation, interessement, enrolment and mobilisation. We consider all the VFM audit reports, annual reports and planning documents as ‘inscriptions’ (Latour, 1987, Law, 1986, Robson, 1992). These inscriptions transmit from one actor to other actors and have the characteristics of mobility, stability and combinability (Latour, 1987, Robson, 1992).

Most of the information and data for this research project came from the documents outlined above. The principal author reviewed and read all these documents. Subsequently, important paragraphs and information were recorded in a MS word file giving the report name, date, and name of the Auditor-General. We applied reader ‘gut feeling’ (Pentland, 1993, p. 619) to highlight and record the important information in these reports. An audit requires a professional judgement process. This professional judgment process cannot be captured by using content analysis software packages. Pentland’s (1993, p. 619) comments are germane:

Audit judgment research conceptualizes auditing as a primarily cognitive process. Within this paradigm, there is no way to account for the influence of “gut feel” in the formation of audit opinion.

Therefore we considered that the most appropriate method to analyse the documents of the State Audit Office is the manual method and professional judgment of the researcher.

We also conducted four semi-structured interviews with four senior state auditors at the VAGO, each lasting approximately two hours. These interviews were transcribed and
subsequently analysed to capture important elements. We communicated with a former Auditor-General, Mr. Wayne Cameron. The principal author prepared a series of questions and Mr. Cameron sent his answers via emails. The VAGO designated a senior officer in the State Audit Office as a contact person for this research, with whom the principal researcher had several email communications and discussions. These communications were properly recorded and analysed.

The principal author visited the VAGO and examined four closed VFM audit files. These examinations and reviews included audit programs, hard copy audit files and electronic audit files. These audit files contained a wealth of unpublished ‘backstage’ field-work notes. The audit field-work notes were reviewed and recorded by the principal author. The notes were then compared with relevant published VFM audit reports. The principal author has worked as an auditor with the Auditor-General’s Department of Papua New Guinea and the Queensland Audit Office. This prior audit knowledge was applied in order to synthesise technological audit programs, methodology manuals and reports. This research method has been identified by Robson et al (2007, p. 416) as ‘hanging around’ knowledge. These multiple empirical sources were used as a form of triangulation (Liamputtong and Ezzey, 2005, p. 40) to verify the major events and flow of the process during the research period from 1982 to 1995. All these research methods provided rich data and information for this research paper and its narrative.

4.0 Theoretical Framework

We used the ‘Action at a Distance’ concept (Latour, 1987, Law, 1986, Robson, 1992, 1994) to explain the development of the VFM audit function of the VAGO. We treated the VFM audit reports, annual reports, planning documents and audit manuals as ‘inscriptions’ that moved from actors to the centre in the public accountability and audit process. The theoretical framework of ‘Action at a Distance’ is operated with the central element of inscriptions (Latour, 1987, Law 1986, Robson, 1992, 1994). Inscriptions have the qualities of mobility, stability and combinability. The ‘Action at Distance’ concept has been explained by Latour (1987, pp. 258-259) as rule seven and the sixth principle:

Rule seven - Before attributing any special quality to the mind or to the method of people, let us examine first many ways through which inscriptions are gathered, combined, tied together and sent back. Only if there is something unexplained once the networks have been studied shall we start to speak of cognitive actors.

Sixth principle - History of techno science is in a large part the history of the resources scattered along networks to accelerate the mobility, faithfulness, combination and cohesion of traces that make action at a distance possible.

The public sector accountability process has similar characteristics to the ‘Action at a Distance’ concept. The general public appoints the Members of Parliament; parliament appoints the Public Accounts and Expenditure Committee (PAEC); the parliament and PAEC appoint the Auditor-General. The Auditor-General reports to the parliament using VFM audit reports. Parliament takes actions on VFM audit reports on the behalf of the general public. This is a cyclical process. All these parties are actors in this process. This is similar to the operation of agency theory and corporate governance in the public sector.

These actors use inscriptions to control the other actors in the process to achieve their objectives. We identify the VAGO as the leading actor in this research study. The VAGO
uses various inscriptions in order to be established as the VFM auditor for the State of Victoria. These inscriptions include corporate plans, annual plans, annual reports, audit methodology manuals, best practice guidelines, client surveys and VFM audit reports. We use the theoretical framework of ‘Centres of Calculation’ or ‘Action at a Distance’ to explain the power of the inscriptions which travel from the centre to the actors and back again to the centre. Thereby the centre can control activities and collect vital data which are of interest to the ‘Centre of Calculation’. Latour (1987, p. 215) explained how Louis XVI, King of France, used this concept to bring the fisherman’s local knowledge of ‘Sakhalin’ into universal knowledge. Similarly, making of local knowledge universal enabled map-makers to make better maps in 1787, benefiting many subsequent navel voyages. Law (1986) explained how the King of Portugal effectively and efficiently controlled the spice trade of the South and Far East Asia using the ‘Action at a Distance’ concept.

We explain how inscriptions are created, and how they are transferred from the VAGO to the other actors such as the parliament and PAEC in order to achieve public accountability.

5.0 Review of Victorian VFM audit reports and audit methodology manuals

The research period is divided into three successive periods to provide a sense of the evolutionary process of VFM audit practices. We acknowledge that this division of time into periods is somewhat arbitrary; it roughly represents the term in office of each of the three Auditors-General included in this study. These three periods are:

- Establishment stage of the VFM audit function from 1982 to 1986. B. J. Waldron was the Auditor-General from 1977 to 1986.
- Development stage of VFM audit function from 1986 to 1988. R. G. Humphry was the Auditor-General from 1986 to 1988.
- Consolidation stage of the VFM audit function from 1988 to 1994. C. A. Baragwanath was the Auditor-General for this period.

We conducted a content analysis of the VFM audit reports, annual reports, audit methodology manuals and planning documents of the VAGO. We paid attention to the aspects of audit mandate, audit manuals, institutional developments, audit objectives and scope, audit process, auditing standards applied, audit report format and contents.

5.1 Establishment Stage of the VFM audit from 1982 to 1986.

Between 1982 and 1986, the Victorian Audit Office tabled three VFM audit reports in the Victorian Parliament (VAGO, 1989). We selected the first three VFM audit reports from 1982 to 1984, as reflecting the earliest development in VFM audit thinking and practice and discussing the policy and framework of the VFM audit function within the Victorian Audit Office.

Given the absence of a formal VFM mandate for the earliest reports, these tended to be called ‘Special Audit Reports’ instead of ‘Performance Audit Report’ or ‘VFM Audit Report’. Each of the audit reports reviewed contained a covering letter addressed to the Speaker of the Legislative Assembly (Parliament of Victoria). In this covering letter, the Auditor-General justified the work through a reference to Section 48 of the Audit Act 1958. Clearly there was a need to justify this work. During this establishment stage the Victorian Auditor-General indicated that he saw the VAGO’s role as a consulting role for the Victorian public sector rather than a classical fault-finding audit role (VAGO, 1983, p. 2).

The essence of the exercise was not in fault finding. The study was intended as a constructive exercise, to ascertain the adequacy of existing procedures and to highlight any changes which may be needed.

In order to establish this work, a gentle approach was required in terms of both the political systems and the sensitivities of the agencies audited. Considerable effort was made to emphasise the Auditor-General’s existing powers to conduct this kind of work and to reassure the agencies audited that it would be in their interest to co-operate.

No formal VFM audit methodology manual existed during this period, although Brian Waldron (the Victorian Auditor-General) sent one of his staff members to Canada to study their system-based auditing. The Auditor-General himself went on a training mission to Canada in 1981 in order to study the concept of comprehensive auditing. Based on these overseas exposures, the Victorian Auditor-General introduced the concept of comprehensive auditing to the Victorian Auditor-General’s office (Yule, 2002, p. 193). The second VFM report (VAGO, 1983) indicated that comprehensive auditing methodology was an extension of auditing into VFM issues. The audit report (VAGO, 1983, p. 1) defined comprehensive auditing as follows:

It may be defined as an approach to auditing designed to review and report on the management of financial, and other resources so as to provide the greatest possible degree of accountability in the expenditure of public funds.

In October 1984 the first formal VFM audit policy was released by the Victorian Auditor-General’s Office as part of the third VFM audit report (VAGO, 1984). This document identified the audit approach as the Canadian model of Comprehensive Auditing, which the Victorian Auditor-General suggested suited the local audit environment. Under this model VFM audit elements were an extension of its financial audit responsibilities.

Comprehensive auditing is a concept developed in Canada which has its primary application in the public sector. In an external audit context it extends the audit role beyond the expression of opinion on financial statements and questions of regularity or compliance with legislative and policy directives. It embraces the additional component of provision of an independent and objective assessment of the monitoring processes used within organisations to ensure that resources are economically and efficiently utilised and objectives of programs are achieved (VAGO, 1984, p.1.)

The components of the comprehensive audit were described by the VAGO (1984) as financial and regularity audits and VFM audits. The components of the VFM audit were identified as the efficiency, effectiveness and economy of operations. The objective of the VFM audit function was:

… to evaluate the processes by which management translates objectives established by legislative or ministerial directive into operational objectives; and the adequacy of mechanisms set in place
by management to monitor the efficiency with which resources are used and the effectiveness with which operational objectives are achieved (VAGO, 1984, p. 2).

The first VFM audit report submitted to Victorian Parliament in June 1982 indicated that a special audit review group had been established to conduct VFM audits within the VAGO. This review group consisted of a senior professional engineer on secondment to the VAGO and a steering committee of audit officers, established to monitor the progress of the VFM audit projects and report to the Auditor-General.

The Early VFM Audit Reports

All the VFM audit reports reviewed included the elements of economy, efficiency and effectiveness as audit objectives. Under the comprehensive model the scope of these reports also covered compliance, financial audit aspects and community issues. The first VFM report was the Works Contract Overview (VAGO, 1982) where the major VFM focus was upon the ability of government organisations to control major works projects. There was a strong compliance element to this project, focusing on whether the work contract arrangements were administered in compliance with all relevant legislations, directives and guidelines, with secondary objectives relating to the quality of internal controls and managerial controls, in order to ensure the financial management and compliance aspects. Because this was a general report it was seen as relatively uncontroversial (Yule, 2002, p. 195)

The second VFM audit report, issued in 1983 (VAGO, 1983), was an extension of the earlier one and focused on studies of four major work projects that had been badly managed. The first was the construction of the Footscray Technical School between 1976 and 1981. The report suggested that this project had been completely mismanaged, with inadequate administrative, technical and oversight skills. This report generated considerable political embarrassment and public press comment.

The third VFM audit by the VAGO focused on the operation of government stores and departmental cash management (VAGO, 1984). Emphasis was placed on questions of economy and efficiency. The report showed that the police stores had enough handcuffs to last for 238 years and that the Education Department had stocks of some cleaning material to last over half a century (Yule, 2002, p. 196). These reports were seen as more approachable than traditional audit reports but also more political.

These early reports outlined the context and nature of the establishment of VFM practice within the VAGO. A Canadian comprehensive auditing model that included both financial audit and VFM audit was adopted. It would appear at this point that the vision and attitude of Brian Waldron, Victorian Auditor-General at the time, had a significant influence on the particular approach adopted in Victoria. It is also important to repeat the point that this approach differed from that which was adopted by the ANAO. However, it is also clear that these new VFM reports were much more politically sensitive than the traditional audit reports, and indeed openly challenged the executive at some points.

The first annual report of the VAGO was issued by Waldron in 1985 under the Annual Reporting Act of 1983. The annual reports of the VAGO are vital documents for studying how the VFM audit function was developed, sustained and moulded during this 10-year period. Similar observations have been made by Gendron et al (2001 and 2007) in their study of the annual reports of the Audit Office of the Province of Alberta, Canada. The annual reports disclosed major highlights in audit policy developments, audit technological
developments, and the relationship with the Victorian Parliament and Executive on public sector audit matters. The annual reports also highlight the idiosyncratic influence of the Auditors-General on the VFM audit function. We reviewed eight annual reports tabled by the VAGO in the Victorian Parliament since 1985. The review of annual reports revealed the following important historical information.

B. J. Waldron retired from the VAGO 17 June, 1986. During his tenure only two annual reports were issued. The first annual report was tabled in the Victorian Parliament on 9 October, 1984. The second annual report was tabled in the Victorian Parliament on 12 September, 1985. The Auditor-General’s influence or idiosyncratic nature is apparent in the annual reports. The annual report indicates (VAGO, 1985, p.7) that VFM auditing at that time was seen an extension of the system-based audit methodology, used to detect whether the organisation concerned maintained adequate controls to account for economy, effectiveness and efficiency in operations. This highlights the contention that, in the initial stages, the VAGO did not have a well articulated VFM audit methodology. In his second annual report, B. J. Waldron indicated that the VFM audit time would be increased to 50% of the total audit time of the VAGO (Annual Report, VAGO, p. 7).

5.2 Development stage of VFM audit function from 1986 to 1988.

Richard Humphry was Auditor-General from 1986 to 1988. He tabled six VFM audit reports during this period. These VFM audit reports are listed in the Appendix 3 to this paper.

Richard Humphry was described by Yule (2002, p. 203) as an agent for change. He took office just after the Victorian Labor government had narrowly won its second election. Humphry had no previous experience in public sector auditing and therefore tended to continue the directions in VFM auditing established by Waldron. The VFM audit on Foreign Exchange Borrowings (VAGO, 1987) was initiated under Waldron and submitted to the Victorian Parliament by Humphry. This VFM audit reflected a concern that government departments were borrowing in foreign currencies to take advantages of lower overseas interest rates. However, the floating of the Australian dollar in 1983 and its collapse in 1986 made these loans expensive and revealed a lack of strategy and expertise in the management of foreign currency risk (Yule, 202, p. 208). The stated objective was to examine the efficiency and effectiveness of foreign exchange management systems and procedures for foreign exchange management in government entities. The report (VAGO, 1987) showed that the collective foreign exchange loss of the Department of Management and Budget (DMB), Victorian Public Authorities Finance Agency (VicFin), State Electricity Commission of Victoria (SECV), Melbourne and Metropolitan Board of Works (MMBW), Port of Melbourne Authority (PMA) and State Transport Authority (STA) was $713 million. This matter generated considerable press publicity and political embarrassment.

Developing Standards of Practice and Corporate Plans

Initially VFM audits were conducted as qualitative program evaluations. As there were no explicit auditing standards the VAGO was forced to develop its own. For the VFM audit on the foreign exchange operations (VAGO, 1987), the VAGO developed a benchmark framework of desirable management practices and procedures of foreign exchange operations as a criterion for comparison. An audit plan was developed to gain an overall understanding of foreign exchange operations of selected State Government entities, based on a preliminary survey of organisations involved in off-shore borrowings. From the beginning VFM audits were carried with a multidisciplinary team, and it became normal practice for the VAGO to
obtain the services of outside experts to work on the VFM audit teams. They employed an engineer (VAGO, 1982) and engaged an inventory management specialist, an economics academic and a treasury management specialist as consultants on the VFM audit of foreign exchange (VAGO, 1987, p.iii).

Humphry developed the first five year corporate plan from 1986 to 1991 in 1987. With the introduction of corporate plans, the VAGO systematically addressed the needs of the auditee (Victorian Parliament and auditee organisations). The VAGO’s first corporate plan was introduced in 1987. This corporate plan was introduced five years after submitting the first VFM audit report in June, 1982. It identified the key issues faced by the office and the best strategies to deal with those issues. This five year corporate plan indicates that the plan was introduced as part of the NPM reform program introduced by the Victorian State Government (VAGO, 1987, p. 3). This paragraph suggests that the VFM audit function would have a prominent position under the NPM reforms.

The central focus of this corporate plan was to clearly define the VAGO’s mission. Within this mission statement the VAGO identified the VFM audit as a central function along with its financial audit function (VAGO, 1987, p. 3).

The strategic direction adopted by the VAGO under this corporate plan to ‘make things auditable’ (VAGO, 1987, p. 5) included three major expected outcomes. These were (i) to enhance the quality of format and content of reports of the Auditor-General to Parliament, (ii) to foster within Parliament and the Executive (and through parliament, the community) an understanding of the role and functions of the Auditor-General, and (iii) to provide quality input to the deliberations of Parliamentary Committees on financial management and accountability issues. This corporate plan was developed in order to ‘make things auditable’ by developing the necessary audit knowledge base and the environment to implement that knowledge base. The corporate plan was developed after conducting a SWOT analysis. It identified four major key issue areas: Services to Parliament, Executive and auditee; audit methodology; information technology; and resource management. The first issue, services to the Parliament, Executive and auditees, related directly to the creation of the suitable audit environment. The two issues of audit methodology and information technology development can be directly linked to the development of audit knowledge. The resource management issue supports both the development of audit knowledge and the creation of the audit environment.

The preparation of corporate plans is one of most important responsibilities of the VAGO. The basic steps in preparing corporate plans involve determining the mission of the VAGO, the strategic directions and goals of the VAGO, the tasks to achieve these strategic directions, and the goals. The research evidence indicates that the broad outcomes of these corporate plans are to enhance the quality of the audit outputs and satisfy parliamentary and PAEC needs. This exercise allowed the VAGO to keep its allies or stakeholders, such as the Victorian Parliament, PAEC and Victorian communities, in line with the State Audit Office
objectives. This process is explained by highlighting the most important sections of the first VAGO corporate plan (VAGO, 1986), as shown below. The following strategies were adopted under the plan to ‘Make things auditable’ (VAGO, 1986, p. 5):

1. Enhance the quality of format and content of reports of the Auditor-General to Parliament, identifying the information parliament needs – undertake a survey to determine the audit information Members of Parliament need from the Auditor-General (e.g. format and frequency of reports, desired qualities of information).

2. Foster within Parliament and the Executive (and through parliament, the community) an understanding of the role and functions of the Auditor-General – Provide periodic briefings to Ministers, other Members of Parliament and senior Executive officers on the role and responsibilities of the Auditor-General, prepare an information document “Auditing for Parliament” for public use.

3. Provide quality input to the deliberations of Parliamentary Committees on financial management and accountability issues. Make appropriate submissions to all relevant inquiries or hearings of Parliamentary Committees and foster ongoing liaison with Secretaries of these Committees. In consultation with the Chairman of the Economic and Budget Review Committee, second an Audit Manager on a full time and rotational basis to assist the work of and provide advice to the Committees.

The above three paragraphs highlight how the VAGO kept its allies or stakeholders in line with its objectives. To achieve the above outcomes, the VAGO established strategic goals. One of the strategic goals set by the VAGO in its first corporate plan was to achieve full implementation of the Office’s comprehensive audit methodology.

5.3 Consolidation Stage of the VFM audit function from 1988 to 1992.

C. A. Baragwanath became the Victorian Auditor-General on 30 August, 1988. We reviewed nine VFM audit reports relevant to this period. Baragwanath submitted 29 VFM audit reports from 1988 to 1995. He followed Humphry into a role that had become increasingly political and increasingly public, due directly to the development and growth of VFM reports. Baragwanath had extensive auditing experience at both State and Federal levels within Australia, and also overseas experience in defence auditing in the USA. At the same time the Labor government was re-elected for a third term, with a narrow margin. This government promptly faced a number of significant economic problems and major controversies, such as the presentation to parliament of a report of mismanagement and waste in the Victorian Economic Development Corporation. Over this period the Auditor-General was regularly quoted in the press and often in open conflict with the government of the day, normally associated with a recent VFM report.

By 1990 the audit mandate for this period had been changed from Section 48 of the Audit Act 1958 to Section 48 A of the Audit (Amendment Act), 1990. This new section of the Audit Act removed ambiguities and more specifically addressed the elements of economy, efficiency and effectiveness of VFM audits. However, in the same Act, the Victorian Auditor-General was barred from questioning the merits of policy objectives of the State Government. The Victorian Parliament further enhanced the VFM audit mandate through the Audit Act 1994.

We reviewed the Victorian Performance Audit Methodology (VPAM) manual developed in 1991. That occurred nine years after submission of the first VFM audit report in 1982. The Victorian Performance Audit Methodology manual is a comprehensive document on VFM audit guidelines and procedures. It is an unpublished internal document of the VAGO. The
manual is divided into five sections: concepts and terminology, planning, implementation phase, reporting, and communication with auditees. This manual highlights the differences between the financial audit process and the VFM audit process.

When the VPAM manual came into operation, no performance auditing standards had been issued by the Australian Accounting Research Foundation. Another important item in this VPAM manual is that it indicated the audit coverage for the VFM audit function. The audit coverage for the VFM audit function included economy, efficiency, effectiveness and legislative compliance (VAGO, 1991). This VPAM manual was revised in 1996. In the revised manual, the Victorian Auditor-General’s Office described the differences and similarities between program evaluation and the VFM audit function, which is important for this research study. The VPAM manual indicated that VFM audit and program evaluation are mostly similar, but VFM audit differs in that it is carried out by an independent authority which reports to the Victorian Parliament. Program evaluation, on the other hand, is initiated within the organisation. The relevant comment is as follows (VAGO, 1996, p. 51, paragraph 7):

> Evaluations generally form part of the internal review process of Executive Government whereas external audit is independent of this framework and reports directly to the Parliament.

**VFM audit report vocabulary**

The other institutional development we noted was that C. A. Baragwanath used strong language in VFM audit reports. These remarks are consistent with observations made by Hamburger (1989) that the Auditor-General’s attitude to the audit approach had an impact on the VFM audit reports. In the VFM audit report on the Bayside development (VAGO, 1992, p. 11.), C. A. Baragwanath commented as follows:

> It has been put to me that disclosure of the ongoing negotiations with the developer could jeopardise the proposed development, but I believe that it is in the public interest that I report to parliament on the preliminary findings arising from the audit. I am naturally concerned that I may be damned for disclosing the ongoing negotiations and possibly jeopardising the fate of the Bayside project. On the other hand, I am equally concerned that I could be severely criticised at some later date for not providing Parliament with information on the current status of the project negotiations.

In the same report (VAGO, 1992, p. 13.), Baragwanath made the following comment:

> It is clear that in financial terms, the substantial outlays and risks to the Government will far exceed the amounts to be returned under proposed agreements.

From the above paragraphs it is clear that the Victorian Auditor-General was providing information not only to the Parliament but also to the general public. The audit findings communicated to various interested organisations, such as the Major Projects Unit of the Victorian Government, the Department of the Premier and Cabinet, the Port of Melbourne Authority, the Department of Planning and Housing and the Environment Protection Authority. In the VFM audit report (VAGO, 1993) on International Student Programs in Universities, Baragwanath made the following audit conclusions. They were harsh and powerful in comparison to traditional financial audit reports.

> Some practices of the universities outlined in this report, if continued, pose risks to the safeguarding of academic standards. Also, the universities need to upgrade the quality of their marketing strategies, particularly in respect of the engagement and monitoring of overseas agents, and their financial administration of programs. The most significant deficiency in the universities’ financial management procedures was their inability to determine total costs incurred in the provision of services to international students. (p.3)

Another important matter to surface from the annual reports was that the Auditor-General actively wanted to report directly to the public. The Auditor-General’s official duty was to report to the Victorian Parliament. He expanded this mandate to include the general public by issuing information documents conveying summarised audit findings. The following paragraph is evidence of this matter (VAGO, Annual Report of 1989, p. 19):

The office (VAGO) considers that it is important that there be a widespread community understanding of its role and responsibilities, the services it provides and its relationship with parliament, Executive Government and auditees. The tabling of Reports of the Auditor-General in Parliament often generates much interest in the community. Parliament – through questions, debates and recording of discussions on the Office’s audit activities in Hansard, and the media – by highlighting key findings of reports, are available sources of information dissemination on the Office’s activities.

Other evidence indicated in the annual reports shows that the VAGO maintained a Special Projects Division to assist the VFM audit function. The VAGO also maintained close links with the Comprehensive Auditing Foundation, and with the Provincial Audit Office of Canada during this early development period.

6.0 Discussion and Conclusions

In this paper we have examined the question as to whether the VFM audit function emerged due to the demand for the public sector audit derived from NPM reforms or whether the VFM audit was developed due to the contemporary development of the public sector audit function within the State Audit Offices. As the research context we examined the VFM audit function of the VAGO from 1982 to 1995.

We conclude that our research evidence supports three main reasons that the VFM audit emerged, developed, was moulded and sustained. They are the NPM-led government reform programs, the Auditor-General’s idiosyncratic influence, and contemporary development of public sector audit technologies within the State Audit Offices.

Power (1997, 2003) argued that a demand emerged for the VFM audit due to the NPM reforms. Public sector organisations were remodelled to operate in a ‘businesslike manner’ (Gendron et al, 2001). The Victorian Parliament set up a committee known as the Parliamentary Public Bodies Review Committee in 1980 (Victorian Parliament, 1981). This committee recommended that the Auditor-General’s audit mandate to be enhanced by the explicit provision in the Audit Act to audit the efficiency and effectiveness of public sector entities (Yule, 2002, p. 189). This exercise was similar to recommendation by the Royal Commission on Australian Government Administration (RCAGA) that the Australian National Audit Office (ANAO) be given the audit mandate to conduct efficiency audits.
It is therefore quite evident that the VFM audit function emerged out of political forces within the State of Victoria and within Australia generally.

The second reason for the emergence of the VFM audit was the idiosyncratic influence of the three Auditors-General from 1982 to 1995. Mr. B. J. Waldron worked as the Victorian Auditor-General from 1977 to 1986. Waldron streamlined the audit processes, introduced computer-assisted audit techniques (CAATs) and commenced the VFM audit function. He introduced innovative audit management practices to enhance the quality of public sector audit. These processes included the recruitment of graduate auditors, merit-based staff promotions, the introduction of audit sampling methods and the use of microcomputers for related audit procedures (Yule, 2002, p. 189). The first VFM audit report was presented to the Victorian Parliament in June, 1982 as a special audit report under the section 48 of the Audit Act 1958. Thereafter Waldron submitted two more VFM audit reports as special audit reports. He moulded the VFM audit of the VAGO as part of his comprehensive audit methodology.

There is also evidence that the VAGO gave high priority to developing the VFM audit function as one of the main audit outputs. The Auditor-General mentioned that the VFM audit would account for the 50% of the total audit time of VAGO in the 1986/87 financial year (Annual Report, 1985, p. 7). The VAGO was highly concerned with the importance of the VFM audit function. Indeed, the VAGO hosted a two-day seminar conducted by the Director of Research and Professional Practice at the Canadian Comprehensive Auditing Foundation in 1985 (VAGO, Annual Report, 1985).

Mr. R. G. Humphrey worked as the Victorian Auditor-General from 1986 to 1988. Humphrey submitted six VFM audit reports to the Victorian Parliament. He expanded the VFM audit activities into very demanding technical areas such as foreign exchange management and land utilisation of government entities. Humphrey made innovative audit recommendations to state government entities, such as measurement of foreign exchange losses due to the floating of the Australian dollar in 1983. The VFM audit report on foreign exchange (VAGO, 1987) provided a complete cost benefit analysis of obtaining overseas loans for four state government owned entities. Such audit recommendations were completely innovative in that era and could not be covered under the annual financial audits.

Humphrey also developed best practice guidelines as yardsticks to measure the economy, efficiency and effectiveness. He employed non-audit experts to guide VFM audit projects, such as experts in finance and economics (VAGO, 1987, p. iii). The most important undertaking completed by Humphrey was the first five year corporate plan from 1986 to 1991. This corporate plan rationalised the key strategic issues of the VAGO with long term goals. The long term goals were further addressed with strategies with targets. The four key strategic issues identified by the VAGO in its first corporate plan were (a) services to parliament, executive and auditees, (b) audit methodology, (c) information technology and (d) resource management. The goals identified under the strategic issue of audit methodology were to achieve full implementation of the VAGO’s comprehensive audit methodology; to ensure by ongoing enhancements that the audit methodology of the VAGO became and remained a source of distinctive competence; and to promote the integrated audit methodology developed by the Office as Victoria’s Comprehensive Audit Methodology (VAGO, Corporate Plan, 1987, pp. 6-10). This corporate plan document shows that Humphrey rationalised the long-term objectives of the VFM audit and attempted to address the parliamentary needs.
C. A. Baragwanath became the Auditor-General of Victoria in 1986 and he functioned in this role until 1999. During his tenure he submitted 18 VFM audit reports to the Victorian Parliament, from 1986 to 1995. The Baragwanath period was one of the most controversial episodes in public sector auditing in Australia. This struggle between the Victorian Parliament and the Auditor-General was fully examined by English (2003), who concluded that the division of the VAGO into two organisations (VAGO and Audit Victoria) was undertaken to curtail the Auditor-General’s mandate under the guise of NPM management reforms. We do not analyse that episode in this paper. However, we point out that this struggle between the Victorian Auditor-General and the parliament enhanced the VAGO’s VFM audit mandate. That mandate was clearly defined under Section 15 of the Audit Act 1994, as follows:

The Auditor-General may conduct any audit he or she considers necessary to determine (a) whether an authority is achieving its objectives effectively and doing so economically and efficiently and in compliance with all relevant Acts; or (b) whether the operations or activities of the whole or any part of the Victorian public sector are being performed effectively, economically and efficiently and in compliance with all relevant Acts.

The above audit mandate was curtailed by the Audit (Amendment) Act 1997 and was subsequently repealed by the Audit (Amendment) Act 1999. The Auditor-General’s audit mandate was reverted back to the original Section 15 of the Audit Act 1994. The other most notable characteristics of this Audit Act 1994 relevant to the VFM audit are that the Auditor-General had to prepare the audit specification of the VFM audit with the audit objectives in consultation with the Public Accounts and Estimate Committee (PAEC). The Auditor-General also needed to submit the annual plan of the VFM audits to be completed to the PAEC.

Baragwanath’s other major achievement was the completion of the first Victorian Performance Audit Methodology (VPAM) manual in 1991. This document was a comprehensive VFM audit manual connecting the conceptual framework of the VFM audit with the final outcome of the VFM audit report. It was divided into seven sections: concepts and terminology, planning, implementation, reporting, communication with client agencies, engagement of specialists, and quality assurance. This document connected the VFM audit standards with the audit mandate given by the Audit Acts. It examined the differences between the performance and VFM auditing with management consulting and program evaluation exercises. This document provided a comprehensive handbook for audit staff. The VAGO (Annual Report, 1992, p.20) highlighted the importance of this VFM audit methodology as follows:

This methodology, which is unique to the operations of the Victorian Auditor-General’s Office, provides a conceptual and policy framework for performance auditing, in addition to defining procedures to be followed during the planning, implementation and reporting phases of the audit. The methodology is aimed at providing a structured approach to conducting performance audits while allowing for the flexibility necessitated by the diverse objectives and scope of individual audit assignments.

Baragwanath developed the second corporate plan from 1991 to 1994. This corporate plan identified four strategic directions. The first strategic direction was expansion of the VFM audit conducted by the VAGO to fulfil the widened legislative mandate (VAGO, Corporate Plan, 1991). Under this strategic direction, Baragwanath planned to increase the number of VFM audit reports, increase the VFM auditors to a total of 85 by June, 1994, and periodically revise the VPAM methodology manual (VAGO, Corporate Plan, 1991, p. 8). In his foreword to this corporate plan Baragwanath stated that the VFM audit function had been fully
embraced by the Parliament, executive, government and general public. Baragwanath emphasised the importance of the VFM audit under the NPM reform environment as follows (VAGO, Corporate Plan, 1991, p. 5).

In the external arena, the serious economic environment means that it is more important than ever for public sector resources to be utilised in the most economic, efficient and effective manner. A major challenge for the Office over the coming years will be to firmly establish performance auditing as the predominant activity, consistent with the expanded legislative mandate, and build on our past achievements in external reporting.

This statement indicates that the NPM reforms had strengthened the VFM audit mandate and jurisdiction within the state public sector in Victoria.

The major historical events in the development of the VFM audit which we have highlighted here confirm that the idiosyncratic influences of successive Auditor-Generals changed and shaped the VFM audit function. This confirms the findings of Hamburger (1989) and Guthrie and Parker (1999). The VFM audit reports, audit manuals and planning documents are ‘transcripts’. They have the power to change the decision making of other actors. These ‘transcripts’ work as mirrors of the VAGO and its activities (Gendron et al, 2001). The narrative story that we have provided highlights that internally driven institutional strategies of the VAGO, such as developing audit manuals and preparing corporate plans, helped it to claim jurisdiction over the VFM audit. This confirms Radcliff’s (1999) findings. It also confirms Power’s (1996) argument that the audit is an active process of ‘making things auditable’. The VAGO created an institutionally acceptable knowledge base by developing the VPAM manuals. It created the necessary audit environment suitable for this knowledge base through corporate planning activities. The corporate plans aligned the Victorian Parliament’s interests with the VAGO’s interests.

The third reason for the development of the VFM audit function was the contemporary development of public sector audit technologies. In 2005 the VAGO and the Queensland Audit Office (QAO) developed a joint risk-based audit (RBA) methodology, known as the Integrated Public Sector Audit Methodology (IPSAM) (Dahanayake and Jacobs, 2008). Prior to this development, the VAGO had introduced its first RBA as the Enhanced Financial Audit Methodology (EFAM) in 1991. This event occurred simultaneously with the introduction of the VAPM in 1991. The RBA and VAPM were interrelated. The audit evidence for the VFM audits could be extracted by using the RBA audit files. This fact was highlighted in the VAGO annual report of 1992 (p. 17):

Financial and performance audits are usually conducted by the Office as separate assignments. However, the knowledge gained during a financial audit of an entity is relevant to the planning of performance audits.

Therefore contemporary development of database systems and audit software packages also contributed to the development of the VFM audit function.

We noted that past studies of VFM audits have argued that the Auditor-General’s independence was compromised in supporting the government’s NPM reform agendas. Gendron et al. (2001, p. 305) argued that the State Audit Office had violated society’s accepted boundaries of independence by acting as a consultant and becoming closely involved in management activities of state government entities. Skaerbaek (2009, p. 16) supported that argument, asserting that auditors cannot claim to behave with independence when they are involved in something that comes close to consultancy activity. We, however, do not support those arguments. First, the Auditor-General did not charge any fees to the auditee organisations which are subjected to the VFM audit. The VAGO was provided with an amount of $13.9 million for the performance of audit work by the Treasury of the State
Government of Victoria in 2009/10 financial year (VAGO, Annual Plan 2009/10). The Auditor-General assisted the executive and state government entities by providing best practice guidelines. These best practice guidelines improved the financial management procedures of the economic entities. The Auditor-General did not participate in the implementation of the best practice guidelines. We noted that the Auditor-General’s power and mandate was questioned by the Victorian Parliament. The VAGO (VAGO, 1995) submitted a VFM audit report to the parliament entitled Privatisation: An audit framework for the future. The Secretary of the Department of Treasury and Finance of Victoria objected to the Auditor-General about this VFM audit on the grounds that the Auditor-General did not have a mandate to audit government policy on the privatisation program as per the Audit Act, 1994. However, the Auditor-General was convinced that the Auditor-General did not have the audit mandate to audit government policy but had the audit mandate to audit how the government policy was implemented by the executive. In this VFM audit report, the Auditor-General drew the line between what constituted government policy and what was an instrument of government policy. The Auditor-General maintained the Auditor-General had the audit mandate to audit an instrument of government policy (VAGO, 1995, p. 6). It is our view that the Auditor-General of Victoria refuted all the adverse reactions from the executive and maintained the social norms of independence expected from an Auditor-General.

We also highlight some further observations about the VFM audit function of the VAGO. The introduction of the VFM audit function repositioned the VAGO in a position of greater power. Our review of these audit reports led us to the conclusion that the Auditor-General’s role was developed and moulded by the protracted struggle (Funnell, 1998) between the executive and the Auditor-General’s Office. In this protracted struggle, the Auditor-General gradually increased the importance of the State Audit Office and its position with respect to the executive government and the community or general public. The PAEC (2010, p. 23) recognizes that the professional discipline of VFM auditing or performance auditing is a distinct public sector function. The PAEC also appraised the VAGO as follows:

The provisions of the Victorian Audit Act relating to performance audits have been widened by Parliament over the years in recognition of the increasing attention given to such audits in the Victorian Auditor-General’s Office (VAGO) and its demonstrated competence and record in their conduct. It is now a feature of VAGO’s audit work for which it has received external commendation and recognition from its peers in Australian and overseas jurisdictions.

The Victorian Auditor-General addressed the Parliament and community in submitting reports to the Victorian Parliament (VAGO, 1992). The Auditor-General addressed the VFM reports directly to the community with a ‘de facto’ audit mandate. The Auditor-General does not have a direct contractual relationship with the community or general public at large. This is a clear signal that the Auditor-General understood that his function and role bore an ultimate responsibility to the community or general public. This is a good example of how the general public could control the public sector governance through the parliament. It is the ‘Action at a distance concept’ in action (Latour, 1987, Law, 1986, Robson, 1992, 1994).

The Victorian Auditor-General’s audit objectives and scope are not limited to the core elements or characteristics of the VFM audit function such as economy, efficiency, and effectiveness, but have been expanded to other areas such as compliance audits. All the VFM audit reports reviewed include as an audit objective compliance with legislations, government procedures and policies. The VAGO considers this to be an overlapping area for the VFM audits and financial audits (VAGO, Annual Report, 1992, p. 17). Compliance audit issues are routinely addressed in annual financial audits. Most of the VFM audit reports show that some aspects of financial auditing are covered, such as the evaluation of internal control systems.
and compliance with financial management procedures. These audit procedures are integral parts of the comprehensive audit methodology.

Our review of the VFM audit reports, annual reports and VFM audit methodology manuals indicates that there is no definite audit methodology based on any kind of scientific methodology or approach. We therefore confirm Radcliffe’s (1999) and Pentland’s (1993) arguments that the auditors do not always use rationalistic tools when they are in the audit field. The VFM audits are carried out as qualitative program evaluations. The VFM audit evaluations are carried out by an independent authority, VAGO, which reports directly to the Victorian Parliament.

7.0 References


AASB, (2002), AUS 806, Performance Auditing, Australian Accounting Research Foundation (AARF), Melbourne.


Parliament of Victoria (1997), Audit (Amendment) Act No.93
Parliament of Victoria, (1857), Audit Act No.22.
Parliament of Victoria, (1990), Audit (Amendment) Act No. 44.
Parliament of Victoria, (1999), Audit (Amendment) Act No.53


## Appendix 1-Table 1-Auditors General and the State Government Details from 1977 to 2006-Research Period.

<table>
<thead>
<tr>
<th>Name of the Auditor General</th>
<th>Occupied Period</th>
<th>State Government in Power</th>
<th>Name of the Premier</th>
<th>Government Period</th>
</tr>
</thead>
</table>


## Appendix 2-Abbreviations used

- **AAO**: Australian Audit Office
- **AG**: Auditor-General
- **ANAO**: Australian National Audit Office
- **CAM**: Comprehensive Audit Methodology
- **EAD**: Efficiency Audit Division
- **FAD**: Financial Audit Division
- **GAO**: General Accounting Office of USA
- **JCPA**: Joint Committee of Public Accounts
- **MAP**: Manual for Performance Audit
- **PAC**: Public Accounts Committee
- **PAEC**: Public Accounts and Estimate Committee
- **PV**: Parliament of Victoria
- **RCAGA**: Royal Commission on Australian Government Administration
Appendix 3- List of Value for Money Audit Reports from 1982 to 1995.

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
<th>Date presented to Parliament</th>
<th>Auditor-General</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Works Contracts Overview</td>
<td>30 June, 1982</td>
<td>B.J. Waldron</td>
</tr>
<tr>
<td>2.</td>
<td>Works Contracts Overview</td>
<td>15 June, 1983</td>
<td>B.J. Waldron</td>
</tr>
<tr>
<td>5.</td>
<td>Provision to Housing to Government Employees/ Post-Project Appraisal Procedures within the Public Works Department</td>
<td>November, 1986</td>
<td>R. G. Humphry</td>
</tr>
<tr>
<td>10.</td>
<td>Utilisation of Plant and Equipment/Youth Guarantee</td>
<td>November, 1988</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>12.</td>
<td>Alfred Hospital</td>
<td>May, 1990</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>15.</td>
<td>Met Ticket</td>
<td>November, 1990</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>16.</td>
<td>Fire Protection</td>
<td>April, 1992</td>
<td>C.A. Baragwanath</td>
</tr>
<tr>
<td>17.</td>
<td>Integrated Education for Children with Disabilities</td>
<td>May, 1992</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>18.</td>
<td>Bay side Development</td>
<td>May, 1992</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>19.</td>
<td>Salinity</td>
<td>March, 1993</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>No.</td>
<td>Title</td>
<td>Date</td>
<td>Author</td>
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<tr>
<td>20</td>
<td>National Tennis Centre Trust/Zoological Board of Victoria</td>
<td>April, 1993</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>21</td>
<td>Visiting Medical Officer Arrangements</td>
<td>May, 1993</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>22</td>
<td>Timber Industry Strategy</td>
<td>May, 1993</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>23</td>
<td>Information Technology in the Public Sector</td>
<td>May, 1993</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>24</td>
<td>Open Cut Production in the Latorbe Valley</td>
<td>May, 1993</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>25</td>
<td>Aged Care</td>
<td>September, 1993</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>26</td>
<td>Investment Management</td>
<td>November, 1993</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>27</td>
<td>Management of Heritage Collections</td>
<td>November, 1993</td>
<td>C. A. Baragwanath</td>
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<tr>
<td>28</td>
<td>Legal Aid Commission of Victoria/Office of the Valuer-General</td>
<td>November, 1993</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>29</td>
<td>International Student Programs in Universities</td>
<td>November, 1993</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>30</td>
<td>Grants and Subsidies to Non-Government Organisations</td>
<td>March, 1994</td>
<td>C. A. Baragwanath</td>
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<tr>
<td>31</td>
<td>Purchasing Practices</td>
<td>May, 1994</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>32</td>
<td>A Competent Workforce: Professional Development</td>
<td>November, 1994</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>33</td>
<td>Handle with Care: Dangerous Goods Management</td>
<td>May, 1995</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>34</td>
<td>Managing Parks for Life: The National Parks Service</td>
<td>May, 1995</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>35</td>
<td>Equality in the Workplace: Women in Management</td>
<td>May, 1995</td>
<td>C. A. Baragwanath</td>
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<tr>
<td>36</td>
<td>The changing profile of State education: School reorganisations</td>
<td>October, 1995</td>
<td>C. A. Baragwanath</td>
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<tr>
<td>37</td>
<td>Promoting industry development: Assistance by government</td>
<td>October, 1995</td>
<td>C. A. Baragwanath</td>
</tr>
<tr>
<td>38</td>
<td>Privatisation: An audit framework for the future</td>
<td>November, 1995</td>
<td>C. A. Baragwanath</td>
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