

10.3 VALUE FOR MONEY

The term 'value for money' (VFM) is capable of many interpretations. In the context of the audit of public sector organisations it can be taken to mean the pursuit of **economy, efficiency and effectiveness**. There is no suggestion that each of these three aims/concepts are perceived to have an equal degree of importance. The person(s) who commission VFM studies should clearly state the terms of reference that the study is intended to serve, ie, to specify the objective to be attained. The meaning of each of the above can be explained as follows:

Economy is the achievement of certain outputs/results for the lowest possible cost.

Efficiency is the inter relationship between the level of service/outputs obtained and the inputs of resources to achieve that output.

Effectiveness is the degree to which the output/services achieve their intended objectives.

The responsibility for ensuring that there is a recognition of value for money, is clearly that of the management. It is not part of the external auditors' functions to ensure that VFM is obtained from the activities/outputs of any public sector body. It is, however, within the scope of the external auditors to be concerned with VFM and be satisfied that the body concerned has deployed its resources with due regard for economy, efficiency and effectiveness. VFM is also concerned with fairness and equity and it is the duty of the external auditor to verify that when the accounts are compiled, the various interests of members of the public have not been unfairly treated. Internal auditors have a duty to ensure that they examine the soundness and adequacy of internal controls. As internal controls encompass operational efficiency and the safeguarding of assets from wastage or losses then there is clearly a concern for VFM within the internal audit role.

The professional accountant/auditor's competence to carry out VFM studies is often cited as a difficulty. This may be overcome by the use of multi-disciplinary teams of which the auditor is a member. The ability to judge effectiveness does depend upon the auditor's ability to judge whether objectives have been achieved. Economy and efficiency are concepts which are compatible with the investigative skills employed by accountants.

The systems approach adopted by internal auditors towards all the activities of the organisation (financial and non financial) has led to the establishment of VFM study teams in that area on the grounds that the investigative skills possessed by the internal auditor are superior to those of external audit. For example a VFM exercise might be carried out in order to evaluate whether purchased items are more cost effective than manufactured items. (A notorious example of this was exposed by an equally notorious ex civil servant who discovered a special unit manufacturing baked beans for the armed services at a higher cost per unit than could be obtained from suppliers. Another example cited was the breeding of laboratory rats at a unit cost of £30 compared to the bought in price of £2.)