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**THE STUDY OF THE AUDIT EXPECTATIONS GAP IN
THE PUBLIC SECTOR OF MALAYSIA**

Thesis submitted to Department of Accounting and Finance

in fulfilment of the requirement for the degree of

Doctor of Philosophy

September 2007

DECLARATION

This thesis is submitted in fulfillment of the requirements for the degree of Doctor of Philosophy (Accounting & Finance) at the University of Stirling, United Kingdom. I declare that this thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that this thesis has not been previously or concurrently submitted, either in whole or in part, for any other qualification at the University of Stirling or other institutions.

Signed

Zaidi Mat Daud

September 2007

ACKNOWLEDGEMENTS

Completing this doctoral thesis has been made possible by the inspiration and encouragement of many people. I would like to acknowledge the following people and agencies, all of whom have contributed in their special ways to the completion of this doctoral thesis.

My utmost gratitude goes to my supervisors, Professor Rob Ball and Professor Ian Fraser for their intellectual guidance, enduring patience and encouragement throughout this demanding process. Their gentle confidence and mentoring has helped give me the strength to persevere and stay committed to my goals and aims. Dr. Robin Roslender was also my supervisor during the first year of the PhD. I owe him a special word of gratitude too.

I would like to express my deepest thanks to the Government of Malaysia and Universiti Putra Malaysia for granting me leave from work and sponsoring my doctoral studies at the University of Stirling. This research also benefited greatly from the comments of audiences at three departmental seminars. Therefore, I also must thank all the staff at Department of Accounting and Finance; and Department of Management, University of Stirling for being so supportive.

My deepest love and gratitude goes to my wife - Sheriza, my son – Amirudin and my daughter - Amira for their patience, loving support and indulgence throughout our life in Scotland. Many thanks also to a number of friends and family in Stirling and other part of the world for their friendship and support.

I shall be eternally grateful to God Almighty from granting me the opportunity to experience one of the most humbling, unforgettable but enjoyable experiences of my life and for giving me the strength throughout my study and emerged at the end as more determined academic and researcher.

ABSTRACT

The audit expectations gap is a prominent issue in the private sector. However, in the public sector, the audit expectations gap is an emerging issue that has received little attention by researchers. To date, only a limited number of studies on the audit expectations gap in the public sector are available, either in the context of a financial audit or a performance audit. This study focused on the audit expectations gap in the context of the latter. The importance of the performance audit function in the Malaysian public sector, combined with recent developments related to this type of audit in the country (such as increasing expectations among the users and associated problems in practice) were the reasons for conducting the study in this area. Thus, the study aims to identify the existence of the audit expectations gap in the Malaysian public sector. In achieving this objective, it explores the perceptions of auditors and Public Account Committee (PAC) members, auditees and ‘other users’ (consisting of journalists, politicians and academics).

The conceptual framework in this study was developed based on Chowdhury’s (1996) and Porter’s (1993) approaches. Utilising the accountability-based framework as suggested by Chowdhury, six audit concepts (auditor independence, auditor competence, audit scope, auditor ethics, audit reporting and auditing standards) were examined. Porter’s model was subsequently utilised to identify the nature and the components of the gap.

This study employed two types of research methods: interviews and audit report analysis. Interviews were conducted with 37 participants comprising of auditors, PAC

members, auditees and 'other users'. The second research method involved the examination of four performance audit reports.

The findings of this study indicated that the audit expectations gap exists in the Malaysian public sector in the context of performance auditing. The analysis of interviews and audit reports clearly suggest that the audit expectations gap exists over a number of auditing issues. These comprise fraud detection exercises, the influence of management, executive and other parties on auditors, outsourcing the audit to private audit firms, content and format of the audit report and extending the audit mandate to cover the question of merits of policy.

ABBREVIATIONS

ACA	-	Anti Corruption Agency
ASOSAI	-	The Asian Organisation of Supreme Audit Institutions
C&AG	-	The Comptroller and Auditor General
CCAF	-	Canadian Comprehensive Accounting Foundation
CICA	-	Canadian Institute of Chartered Accountants
GLC	-	Government Linked Companies
INTOSAI	-	International Organisation of Supreme Audit Institutions
JAN	-	Jabatan Audit Negara
KESEDAR	-	Kelantan Selatan Development Board
MARDI	-	Malaysian Agricultural Research and Development Institute
MAS	-	Management Advisory Services
NAD	-	National Audit Department
NAO	-	National Audit Office
NAOF	-	National Audit Office of Finland
NDP	-	National Development Policy
NEP	-	New Economic Policy
NFPE	-	Not For Profit Enterprise
NPM	-	New Public Management
NZ	-	New Zealand
PAC	-	Public Account Committee
PBBS	-	Program and Performance Based Budgeting
POB	-	The Public Oversight Board
RISDA	-	Rubber Industry Smallholders Development Authority
SAI	-	Supreme Audit Institution
SMIDEC	-	Small and Medium Industries Development Corporation
UK	-	United Kingdom

- UMMC - University Malaya Medical Centre
- UNDP - United Nations Development Programme
- VFM - Value for Money
- YDPA - Yang DiPertuan Agong

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CHAPTER 1

INTRODUCTION

1.1. Preamble

This chapter provides an introduction to the thesis: The study of the audit expectations gap in the public sector of Malaysia. The first section introduces the motivation for this study. The research objectives are outlined in section 1.3 while a brief introduction to the research methodology is provided in Section 1.4. The contributions of the study are discussed in section 1.5. Section 1.6 highlights the limitations of the study. Finally, section 1.7 outlines the structure of the thesis.

1.2. Statement of the Problem

Auditing has been largely recognised as a 'social phenomenon' because its functions are constantly subject to change, depending on the interaction between the audit profession and the public (Flint, 1988; Power, 1997; Sikka et al., 1998). From one perspective, the progression of the audit function reflects an effort by the audit profession to ensure that auditing is seen as relevant to the changing environment. Flint (1988), Power (1994; 2000), Epstein and Geiger (1994) and Petland (2000), for example, argue that this progression was in response to a perceived need of the public who seek information or reassurance about the conduct or performance of others. Other researchers such as Fogarty et al. (1991), Sikka (1992; 2002), Humphrey et al. (1993), Lee (1995) and, Sikka et al. (1998), however, take a more cynical perspective. They argue the progression of the audit function was a direct result of the 'political games' of the audit

profession to ensure it maintains the power of self-regulation. In this context, the audit profession seeks to shift 'the preferred meanings about the nature, practice and/or outcomes of auditing' (Sikka et al., 1998, p.302). In the private sector, this progression has led to varying perceptions among the public on what to expect from auditors and on what they can deliver. Many scholars have referred the differences between the public and the audit profession's expectations as the 'audit expectations gap' (Liggio, 1974; Humphrey et al., 1992; Porter 1993; Humphrey, 1997; Gray and Manson, 2000). That are the services received versus the expected services provided by the auditors.

Research to date on the audit expectations gap indicates that it exists for several reasons. Humphrey *et al.* (1993) and Porter and Gowthorpe (2004), for example, have argue the gap exists due to a deficiency in an auditor's performance and auditing standards. Pierce and Kilcommins (1996), Boyd *et al.*, (2001) and; McEnroe and Martens (2001), argue that the gap exists due to misinterpretations and misunderstanding of the meaning of auditing by the users. These studies suggest that the users do not understand the audit functions and the role of auditors. Consequently, they have unrealistic expectations of auditors. Earlier, research by the Canadian Institute of Chartered Accountants (CICA, 1988) and Porter (1993) established the deficient performance, deficient standards and unreasonable expectations as the components of the audit expectations gap. However, a recent empirical study conducted by Porter and Gowthorpe (2004) has shown that these components have changed over time although the perceptions of pessimism as to the audit functions have not been eliminated.

As agreed by most researchers, the audit expectations gap centres on several issues. The most notable are: the auditor's roles and responsibilities (Porter, 1993; Fazzly and Ahmad, 2004; Dixon *et al.*, 2006), the nature and meaning of audit report messages (Monroe and Woodliff, 1994; Gay *et al.*, 1998) and audit independence (Sweeney, 1997; Lin and Chen, 2004; Alleyne *et al.*, 2006). Humphrey (1997) classified the issues on the audit expectations gap into four main areas: audit assurance, audit reporting, audit independence and audit regulation.

Surprisingly, unlike the situation in the private sector, the research into the audit expectations gap in the public sector has received little attention by researchers. To date, only Pendlebury and Shreim (1990; 1991), Chowdhury and Innes (1998) and Chowdhury *et al.* (2005) have undertaken research investigating the audit expectations gap in the public sector.

In the context of the public sector, the audit function has also changed over time. Traditionally, the public sector audit was concerned with regularity, legality and probity of government agencies expenditures. The main considerations were about ensuring that the money allocated by Parliament was spent according to its purposes and that the accounts were properly presented and conformed to the laws and regulations governed by the agencies. However, with public sector reforms, the public sector administration has become more complex. The traditional audit functions have been expanded to include wider monitoring functions over government agencies. The auditors' task now, is to examine whether programmes implemented by government agencies have been implemented economically, efficiently and effectively. This is widely known as Performance Audit or Value for Money (VFM) audit (Glynn, 1985; Pollitt *et al.*, 1999;

INTOSAI, 2004; NAD 2006). The objective is to ensure that the government agencies are accountable not only for the resources they used but also for the effectiveness with which they used those resources. Accordingly, the public sector audit is now concerned with terms such as ‘accountability’, ‘output’, ‘efficiency’, and ‘value for money’ (Guthrie and Parker, 1999; Ng, 2002).

Performance auditing, however, creates a general concern among the public, especially developing countries. According to Khan and Stern (2005), the audit practice in developing countries still concentrates on traditional audits as opposed to performance audits. Reasons for traditional audit versus performance audit include but are not limited to lack of auditor independence from the executive, limited access to information, financial and legal constraints, capacity and skills constraints and lack of timeliness and relevancy. They concluded that ‘these problems stem from the fact that Supreme Audit Institutions (SAIs) are made to abide by stringent legislative mandates, international and national standards and remained confined within traditional-bound bureaucracies’ (p.21). In Malaysia, there is also evidence to suggest that the conduct of performance auditing is also faced with these problems with increasing expectations on auditors. As stated by Abdullah (1988):

‘It must be directed towards ascertaining the effectiveness of the resources utilised by the government. Towards this end, compliance and financial audit is necessary but not sufficient to ensure that resources are effectively used. The less objective nature of performance audit should not deter its implementation. It only means that such audit must be meticulously carried out and the people involved fully trained’ (p.28).

To date, studies of the audit expectations gap in the context of performance audit have only been conducted in developed countries (see Chapter 4). Thus, these studies might

not be applicable to developing countries considering the differences in the development of the public sector auditing, the composition of public sector administration and the information needs of users. Furthermore, developed countries are usually characterised by a high-level of accountability, a clean and efficient bureaucracy and judiciary and a transparency in administration (Dye and Stapenhurst, 1998; Berglof and Thadden, 1999; Chang, 2001; Sandholtz and Koetzle, 2000). These characteristics significantly contrast to developing countries. There appears always to be a lack of attention to developing countries's political and socio-economic factors which impact upon accounting, resulting in suggestions that the transfer of western accounting technologies automatically beneficial to these countries – though experience and time again appears to prove otherwise (Ali, 1999).

From a political-economic perspective, the progression of public sector auditing in developing countries has been generally different from 'so called' Western countries. In many cases, developing countries have been adopting auditing systems that have been introduced in developed countries (Baydoun and Willet, 1995; Chand, 2005). This may be due to several factors such as the effects of colonialism (Heatly, 1979), the influence of professional associations (Baydoun and Willet, 1995) and the conditions required by the international funding agencies (Heatly, 1979) such as the International Monetary Fund and World Bank. The local professional associations or affiliated institutions, which are usually founded by western countries, for instance, may put pressure on the audit institutions to adopt the international accounting and auditing standards for harmonising the auditing practices among the countries. This is still a disputable issue because such standards may not suit to the needs of developing countries. Furthermore, the possibility of fraud, corruption and economic mismanagement are high in the public

sector in developing countries (Kaufmann, 1997; Gray and Kaufmann, 1998; Sandholtz and Koetzle, 2000). In this respect, it is possible to argue that there could be more demand from the interested parties, such as international funding agencies and politicians, on auditors to perform the roles which may be outside the scope of the audit mandate.

Additionally, researchers also claim cultural factors of one country could have implications on the attitudes and perceptions towards accounting and auditing systems. Agacer and Douplik (1991); and Patel *et al.* (2002), among others, argued that the adoption of accounting and auditing systems of developed countries in developing countries might face many cultural obstacles such as in the interpretation of standards, audit procedures and codes of conduct. Among the possible cultural factors are the level of transparency (Gray, 1988), conservatism and collectivism (Gray, 1988; Schwartz, 1994) and power distance (Hofstede, 2001; Ding *et al.*, 2005). These factors are also relevant to the Malaysian context. Needless to say, one may expect that Malaysia has at the very least, the culture of collectivism and a high power distance, while it is the opposite for many western countries, (Ali, 1999). In a high power distance society, for example, researchers such as Patel *et al.* (2002), Hofstede, (2001) and Ding *et al.* (2005) suggest that individuals would respect and value the views or orders of elders, superiors and authority. Consequently, they would 'accept a hierarchical order in which everybody has a place which needs no further justification' (Salter and Frederick, 1995, p.381). Thus, it is possible this factor will significantly influence the perceptions of the users and auditors on the functions of performance audit and auditors work.

1.3. Objectives of the Study

As will be demonstrated in chapter four, research into the audit expectations gap in the public sector in the context of performance auditing is very limited. Similar research in the developing countries, specifically Malaysia, has not been carried out at all. Thus, this study has attempted to fill the research gap in this area.

The primary objective of this study is to provide an answer to the following question:

- 1. Does the audit expectations gap exist with regard to performance auditing in the Malaysian public sector? If it exists, in which component (s) does the gap occur?**

In order to address this issue, this study will examine six audit concepts to ascertain if there is disagreement of perceptions of auditors and users of audit reporting. As previously stated, the audit expectations gap is said to exist if there is a difference in the perceptions between auditors and users. Once the existence of the gap was identified, this study further attempted to identify whether the gap was due to deficient performance, deficient standards or unreasonable expectations as proposed by Porter (1993). Nevertheless, in some cases whether the gap arises from deficient performance or standards, on the one hand, or unreasonable expectations on the other is unclear.

In addition to the primary objective, the following secondary objectives are set out in the questions below:

1. What are the perceptions of the auditors and users of audit reports towards?

i. auditor roles and responsibilities;

The objective is to identify the respective perceptions of auditors and users towards auditor's roles and responsibilities in the area of economy, efficiency and effectiveness; and on fraud detection and reporting exercise.

ii. auditor independence;

The objective is identify the respective perceptions of auditors and users towards the auditor's practice in providing management advisory services and the influence of outside parties such as politicians, executives and management on auditors.

iii. auditor competence;

The objective is to identify the respective perceptions of auditors and users as to auditor competence including qualifications and skills, contracting auditing to private audit firms and hiring auditors from different academic backgrounds.

iv. auditor ethics;

The objective is to identify the respective perceptions of auditors and users towards the professional responsibilities, conduct and behaviour of auditors in relation to societal expectations.

v. audit reporting and;

The objective is to identify the respective perceptions of auditors and users towards the contents and format of audit reports.

vi. auditing standards.

The objective is to identify the respective perceptions of auditors and users towards the adequacy of the present auditing standards and guidelines to meet the objective of performance audit.

2. What are the factors that contribute to the audit expectations gap or to the component(s) of the gap?

This research question seeks information about the cause(s) of the gap (e.g. auditor independence, auditor competence etc) identified in the two-research questions described earlier.

1.4. Research Methodology

Most of the research to date pertaining to the audit expectations gap has adopted the verification approach within the positivist paradigm. This involved the use of a model or theory followed by testing hypotheses concerning the phenomenon of interest. The researchers used the statistical results to accept or reject the hypotheses and then made conclusions based on the evidence. In contrast, this study is exploratory in nature. It aims to identify, analyse and discuss the existence and the nature of the audit expectations gap. In relation to this, it encourages the discovery of concepts from the participants perspective based on their understanding and interpretation. This study therefore, fits within the interpretivism/constructivism paradigm.

For the purpose of this study, a qualitative methodology was chosen due to its relationship with the research paradigm and suitability in addressing the objectives of the study. As argued by Inu (1996), this method is ‘desirable when asking questions about meaning, human value or the understanding of social processes not previously explored or when searching for new theory grounded in the perceptions and traditions of social groups’ (p.771).

In order to achieve the primary and secondary objectives of this study, two different methods were adopted. The first method consisted of interviews with the auditors of the Malaysian National Audit Department (NAD) and three groups of users; Public Account Committee (PAC) members, auditees and ‘other users’ (academics, journalists and politicians). The purpose is to determine the area of agreement or disagreement of perceptions between the auditors and the users, their causes and the components of the gap. The second method employed involved an analysis of the Auditor General’s performance audit reports. The purpose is to reinforce the findings from the interviews in relation to the causes and components of the gap. Specifically, the latter examines the extent to which the auditor’s output has conformed to the standards. This provided a further insight to the reasonableness of the users’ expectations. In total, four performance audit reports were selected and examined for the purpose of this study.

1.5. Contributions of the Study

To the researcher’s knowledge, this is the first study that attempts to collect information on the existence of an audit expectations gap in general, and in the context of performance auditing, specifically in the Malaysian public sector. Thus, from the

researcher's point of view, this study potentially contributes to the auditing literature in three ways. Firstly, it extends the existing knowledge on the audit expectations gap by providing evidence of the nature of audit expectations and their composition in Malaysia. Secondly, by examining the nature of performance audit and audit process, using Malaysia as a case study, this study contributes to the literature of performance audit in developing countries. This study demonstrates that the audit institutions of such countries cannot afford to overlook the importance of compatibility with needs of users in the conduct of auditing. Thirdly, this study contributes to the knowledge of the audit expectations gap in the public sector by enhancing the understanding of the effect of different contexts on the audit expectations gap. The findings of this study could therefore provide a useful framework for studying the audit expectations gap in the public sector and be useful to academics and other researchers.

In addition to the contribution to the literature, the findings of this research also have implications for practice. The success or otherwise of the conduct of performance auditing needs to be measured not only from the perspective of auditors, but also from the point of view of the users of audit reports. The fact that performance audit has been implemented for the past 25 years and yet not studied in terms of how the users use and view the audit reports, highlights a need to conduct research regarding users attitudes, expectations, and the value of audit reports. Such a study would not only help identify how useful the current performance audit is but also provide important information for future planning. Thus, the findings would be useful to NAD in their policy formulation and developing programmes that would optimise the value of performance auditing so that it more adequately addresses the needs of Malaysian users.

1.6. Scope and Limitations of the Study

This study aims to explore the presence (or absence) of the audit expectations gap in the Malaysian public sector. It investigates the perceptions of auditors and users on the performance audit functions and auditors' work. The first limitation of this study is that it did not cover the public sector financial audit or compliance audit. Also, the findings of this study are limited to Malaysia or to other developing countries with similar auditing and public sector environment. The final limitation is the inherent research methodology involving the use of interviews and audit report analysis.

1.7. Outline of the Thesis

This thesis consists of nine chapters. The first chapter presents the statement of the problem, the objective of the study, the research methodology, the contribution of the study, limitations of the study and the outline of the thesis.

Chapter two, 'Malaysian Background', describes the Malaysian environment with an emphasise on the general background of its' public sector auditing environment. The chapter starts by briefly describing the background of the Malaysian public sector and on the development of public sector auditing in the country. A brief description of the main groups involved in the study namely National Audit Department (NAD), Public Account Committee (PAC), auditees (Government Agencies) and 'other users' (academics, politicians and journalists) is also provided. Finally, the chapter presents an analysis of the current issues of concern in public sector auditing in Malaysia.

A review of the literature on the audit expectations gap from the perspective of the private sector is outlined in chapter three. It attempts to identify the causes and prominent issues. It then presents the conceptual framework, which was developed based on the approach used by Chowdhury and Innes (1998) and Porter (1993).

Chapter four, describes the features of performance auditing and its practice and begins by looking briefly into the complex concepts of New Public Management and its relationship to performance auditing. It then discusses the issues concerning the economy, efficiency and effectiveness, three important elements of performance auditing. The needs for performance audit are also discussed followed by a brief look at the practice of performance auditing in other countries such as the UK, Finland and Bangladesh. Although this study is not a comparative one, it was considered important to have a brief comparison with other countries to identify some of the problems faced by other countries.

‘Research Methodology’, chapter five, outlines the research methodology and methods of data collection. A justification of selecting an interpretivism/construtivism paradigm and qualitative approaches are offered in this chapter. It then discusses the research methods utilised in this study, namely interviews and the analysis of performance audit reports and their relevance to this study. It also presents the process of data collection, transcription and analysis of data.

Chapter six, presents the interview analysis. It reports the findings of the study of the auditors and users perceptions on the audit expectations gap. In reporting the findings,

this study separates the description from interpretation, as recommended by Patton (1990). As argued by Patton (1990), the description and interpretation need to be separated when conducting fieldwork studies to ensure the reliability of data. Direct quotations from the participants are included to support the analysis. The interpretation and discussion of the findings are provided later in chapter eight.

The findings from the audit reporting analysis are reported in chapter seven, 'An Analysis of Audit Reports'. Four audit reports published in 2003 were selected with the objective of identifying the potential causes and the extent of departures of the users' perceptions from the actual products of auditors and the reasonableness of their perceptions.

Chapter eight, 'Discussion', integrates the findings from chapter six and seven on the various issues in the audit expectation gap. The issues are then discussed by relating to literature on the audit expectation gap.

Chapter nine provides a conclusion on the research findings. It presents the summary of the research findings in relation to the research question. Contributions made by this study to the literature and to the NAD are discussed. The limitations of the study and directions for future research are also included.

The structure of the thesis is shown in Figure 1.1

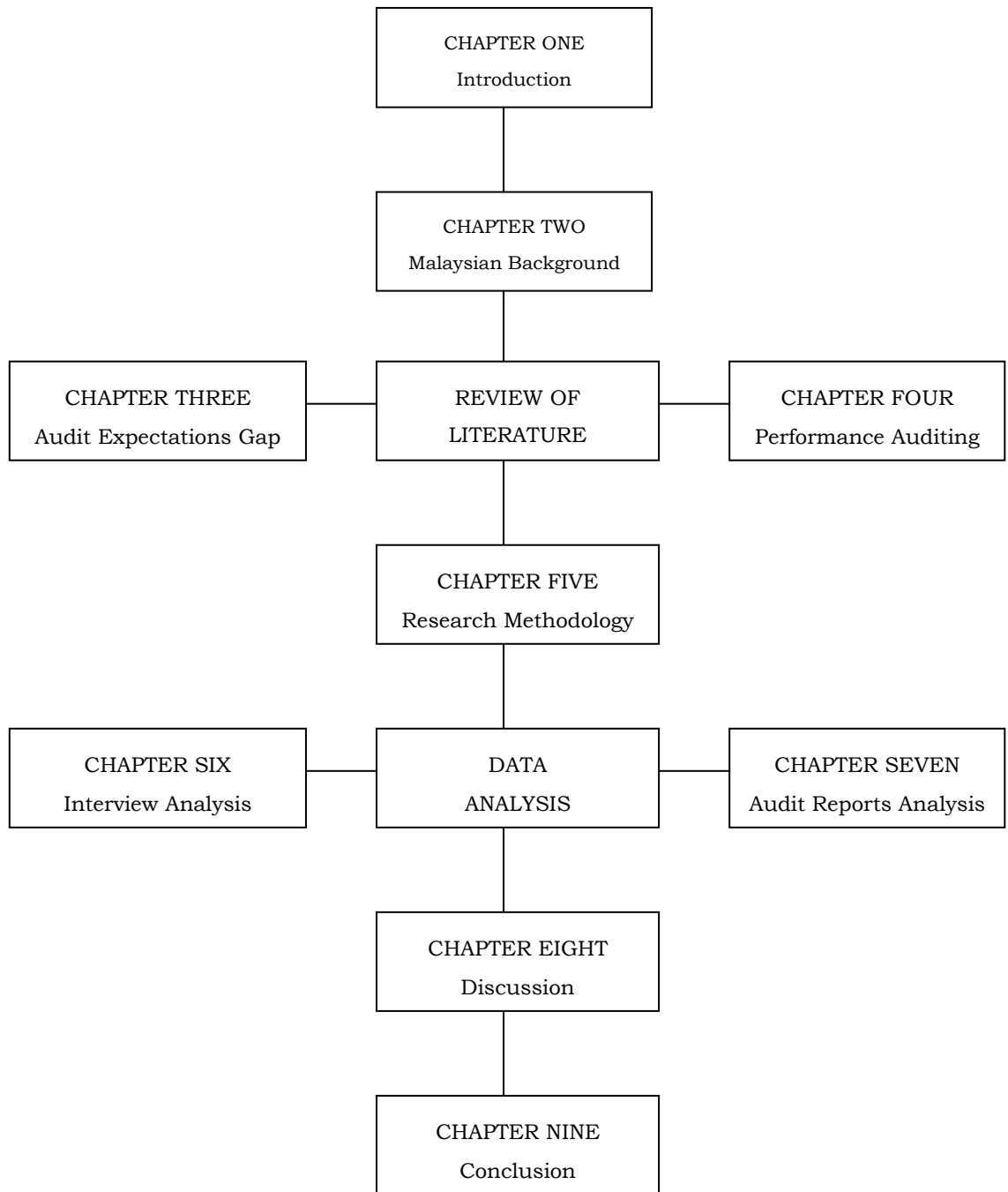


Figure 1-1: Presentation of flow of the thesis

CHAPTER 2

MALAYSIAN BACKGROUND

2.1. Introduction

Chapter one provided a broad overview of the thesis. As this study was conducted in Malaysia, it was necessary that some coverage be provided on the background of the Malaysian public sector such as its composition and auditing environment. This chapter aim to provide an overall framework for understanding the factors that can influence the areas being investigated. Apart from the fact that the researcher is from Malaysia, there are two other considerations for selecting Malaysia as a context of study.

Since 1983, the performance audit has been formally recognised as the audit function in Malaysia. Since then auditors have performed voluminous audits on government agencies' programmes. Evidence (discussed in Section 2.9) shows that there are consistent issues arising in the auditing process such as auditor independence, auditor competence and audit reporting. Surprisingly, to the researcher's knowledge, no research has been conducted to date to investigate these issues.

At an international level, the existing studies were conducted in western countries (Chapter 4) where such findings may be inapplicable in the Malaysian context. As argued by Hermanson (1993), the political, economic and cultural risks of one country can influence the actions of auditors. According to Agacer and Doupnik (1991), the belief of the users in the audit process will differ if the underlying audit concepts differs between countries,

although the same auditing techniques are adopted. Thus, Malaysia provides an appropriate setting to explore these issues.

In light of these considerations, it is important to develop a closer understanding of the performance auditing process from a different context. Since there has been increased expectations (see Section 2.8), this study has attempted to examine the perceptions of auditors and the users on the conduct of performance auditing.

This chapter is organised as follows. Following an introduction, section 2.2 provides an overview of the history of Malaysia. Section 2.3 describes the composition of its public sector while section 2.4 discusses the growth of public sector expenditure in Malaysia. Section 2.5 briefly highlights the development of public sector auditing in Malaysia from early 19th century to present day. Section 2.6 then examines the roles of NAD, the highest authority to conduct audits for public sector agencies. An overview of the users of performance audit reports follows. Section 2.8 discusses public expectations in Malaysia and this follow with a discussion on the issues and challenges for the NAD. Finally, section 2.10 provides a summary for the chapter.

2.2. History of Malaysia

Malaysia's prehistory begins with the earliest known traces of human habitation around 40 millenniums ago (Brown, 1986), and extends through the prehistoric period to the founding of the Malacca Sultanate in 1400, the date commonly used as the starting point of the historic era. Situated in the heart of Southeast Asia, Malaysia (later known as Malaya) has always been vital to trade routes from Europe, the Orient, India and China. Malaya was a

popular transit point and trading zone for traders travelling to and from China and India (Abraham, 1993). The arrival of Europeans in Malaya brought a dramatic change to the country, in terms of its social, economic and political environment. Colonial rule began in 1511 when the Portuguese captured Malacca which resulted in the rulers of the Malacca Sultanate fleeing to other parts of Malaya where they tried to establish a new kingdom. The capture of Malacca by the Portuguese also signified the beginning of nearly 500 years of western influence over Malacca and other parts of the peninsula. The Portuguese were in turn defeated in 1641 by the Dutch, who colonised Malacca until the advent of the British.

The British acquired Malacca from the Dutch in 1824 in exchange for Bencoolen in Sumatra. The extension of the British influence to Malaya began after their new bases in Malacca, Penang and Singapore, collectively known as the Straits Settlements, became a crown colony in 1867. The British, through their influence and power, began the process of political integration of the Malay states. British power gradually extended to the north of Malaya. In 1909, the UK signed a treaty with Siam, which allowed the British a free hand to establish influence over the Malay States of Perlis, Kedah, Kelantan and Trengganu. At the same time, the 1800s saw the expansion of British influence to Sarawak and Sabah. In 1881, the British granted a charter to the company, which continued to rule until the Japanese invasion of 1941. Gradually the British consolidated their control over the Malaya, Sabah and Sarawak.

After World War II and the Japanese occupation from 1941-45, the British created the Malayan Union of 1946. This was abandoned in 1948 and the Federation of Malaya emerged in its place. The Federation gained its independence from the British rule on 31 August 1957. In September 1963, Malaya, Sarawak, Sabah, and initially Singapore united

to form Malaysia, a country whose mix of society and customs derives from four of the world's major cultures - Chinese, Indian, Islamic and Western.

Today, Malaysia comprises the Malay Peninsula, the most southern tip of the Asian mainland, and the states of Sabah and Sarawak. Malaysia has a population of approximately 25.6 million with a diversity of races and cultures. The population is made up of Malays or Bumiputera – plainly translated as ‘*Sons of the Soil*’ (58%), Chinese (27%), Indians (8%) and others (7%) including indigenous people and Eurasians.¹ The Malaysian system of government is based on the British Westminster system with constitutional monarchy. The Head of State is the *Yang DiPertuan Agong (YDPA)* (the King) who is also the head of the armed forces. As a constitutional monarchy, the executive power is vested on the Prime Minister and other cabinet ministers.

2.3. Malaysian Public Sector

The Malaysian public sector is based on a British System as Britain structured the socio-economic landscape and reorganised the administration of the country during its’ colonial rule. Initially, the main cause of the British intervention was to protect the interests of its subjects. Britain signed formal treaties with the Malay rulers, which enabled them to appoint officers (called residents) to take charge of all administrative matters, except those relating to Islam and Malay customs. These two duties were under the jurisdiction of the Malay Sultanate. The British still maintained the rights of the Malay Sultanate in each state so not to create any unnecessary upheaval among the locals which can be very violent at times (Allen, 1968).

¹ See Department of Statistics, Malaysia, 2005

During British control, a well-ordered system of public administration was established with the primary focus mainly 'centred on providing various basic services to the public in order to maintain law and order' (Alhabshi, 1996, p. 2). As a result, Malaya developed good public administration systems. After independence, the new government moved forward by focusing on economic development. In order to keep pace with the increasing activities, the public services focused on the development of administration and institutions. Priority was given to the creation of a new organisational structure as instruments of development, mainly to meet the increasing need for improvements in the delivery of services to the public (Alhabshi, 1996). This development continues to this day.

According to Abdullah (1988) the governance system in Malaysia is complex and costly. This complexity is a result of the existence of various levels of government in addition to statutory bodies and government linked companies. All these institutions are presumed to exist for providing and maintaining the security and welfare of the people. The modern Malaysian government administration and machinery mainly consists of the following entities:

1. The Federal Government

The federal government is the highest tier of government with its power and authorities normally applied to the whole country. Under the Malaysian Constitution, the federal government is responsible for matters related to defence, external affairs, internal security, finance, justice, federal citizenship, commerce, industry, communications, transportation and other matters. These responsibilities are carried out by the Ministries, which are the highest body in the federal administrative machinery. Each ministry is headed by a

minister who is responsible for planning, implementing, coordinating and enforcing government policies and all matters under the portfolio of the ministry. The departments under each ministry, which is usually headed by a Director General, carry out most functions of the ministries. Most of the departments have branches at state and district levels.

2. The State Governments

The state government is the second tier of the government. Its responsibilities are limited compared to federal government. The Ninth Schedule of the Constitution specifically lists the only matters related to land tenure, the Islamic religion, and local government can be legislated by the states. However, any matter, which does not fall under the jurisdiction of the federal government, can be legislated on by the individual states. At present, there are 13 State Governments within Malaysia with 240 state departments implementing state functions along with Federal Departments. The state governments generate their own revenue and expenditure although the Federal Government would provide yearly grant to them. The executive authority in the state government is vested in the Ruler or the Yang Di Pertuan Negeri assisted by the State Executive Council who is headed by the Chief Minister or the Menteri Besar.

3. Local Government

The local government is the third tier of government which constitutes the City Councils, Municipalities and District Councils. It has less power than the state governments and is usually responsible for the maintenance of public infrastructure, waste removal and

management, town planning, environmental protection and social services. The local government normally operates based on their own revenue derived from sources within their jurisdiction such as taxation on property, licensing, parking fees etc. Other sources of revenue are through financial grants from the Federal Government and respective State Governments.

4. Statutory Bodies

Statutory bodies are set up under Statute Acts both by the Federal and State Governments. As the statutory bodies were established under the Act of Parliament, any amendment or modification to the provisions contained in the Act requires approval of Parliament. They are normally set up for particular purposes and are given autonomous authority. For example, they have the power ‘to borrow, to give loans, to invest, to establish subsidiaries companies, establish fund and trust accounts and to carry out programmes and activities’ (NAD, 2003). Examples include MARA University of Technology, Majlis Amanah Rakyat (MARA) and Urban Development Authority (UDA). These bodies are placed under the different government agencies headed by various ministries.

5. Government Linked Companies (GLCs)

A GLC (also known as Non-Financial Public Enterprises, NFPEs) refers to a corporate entity where the government owns a stake in the company. These companies were set up through Acts of Parliament. They are totally autonomous with management and are given the authority to run the organisation. Funds are allocated from Consolidated Funds and not through the normal annual budgeting. GLCs remain the main service providers to the

nation in key strategic utilities and services including electricity, telecommunications, postal services, airlines, airports, public transport, water and sewerage, banking and financial services. Examples include Petronas (oil and gas company), Malaysian Airlines (national airline), Telekom (telecommunication) and Tenaga Nasional Berhad (an electricity company).

In sum, it is clear that the Malaysian public sector consists of five different entities, each has specific purposes and responsibilities. For the purpose of this study, the term public sector consists of federal government, state governments, local governments, statutory bodies and government linked companies. These institutions are subject to auditing by the National Audit Department which is further explained in section 2.6.

2.4. The Growth of Public Sector Expenditure

At independence, Malaysia inherited an agricultural economy dominated mainly by two commodities: rubber and tin. These commodities were largely produced in the Western part of Peninsular Malaysia especially in the states of Selangor, Perak and Penang. The dependence of the Malaysian economy on these commodities, however contributed to other problems. There was an imbalance in the development of states and between rural and urban areas. As noted by Athukorala & Menon (1999), whatever infrastructure that exists in these nation states, whether physical or administrative, they were built by colonial power not for national advancement, but rather for reasons of economic exploitation or strategic security concerns. As a result, states rich with these natural resources became the most developed and equipped with better infrastructure such as railways, ports and utilities compared to other parts of the country.

The situation became worse when the British brought in emigrants, especially from China and India to work at the mines and rubber plantations. The British policy on labor immigration at this time caused ethnic and economical imbalances in the country. The population of the Malay Peninsula was almost evenly divided between indigenous inhabitants and the emigrant communities (Awang, 1984). The Malay and non Malay communities were affected differently by the economy. For example, the Malays had always been associated with rural areas and engaged in agricultural sectors; the Indians with plantations and government sector; and the Chinese with commercial sectors and urban areas. The Bumiputera were more concentrated in rural areas in smallholder agriculture, but were also represented in government, the police, and the armed forces; the Indians were still heavily concentrated in the plantation sector, as well as in railways and government utilities; while the Chinese dominated trade and commerce (UNDP, 2005). In terms of income, Malays earned much less than the Chinese and the Indians. According to Awang (1984), Malays earned on average RM34 per capita per month or one half of that of Chinese at RM64 per capita while Indians earn RM57 per capita per month.

These two factors: the unequal development of the nation and the imbalance in the distribution of wealth required the government to intervene and participate actively in the economy to stimulate development in these areas. In these newly independent nations, the governments have taken a central role in socio-economic planning and implementation (Mohamed, 2001), shifting from providing and maintaining basic services relating to national security to being a major player in the development of the economy. The development policies and programmes have been oriented primarily towards accelerating the growth of the economy through investment in the leading sectors such as agriculture, mining and primary industries without an explicit formulation of distribution targets to

redress the socio-economic imbalances, which characterised Malaysian society at the time of independence (Aslam and Hassan, 2003). This commitment saw the government introduce its five-year national economic plan in 1955 called First Malaya Plan². The plan, which ended in 1959 focused primarily on providing the basic necessities and infrastructure. During this time, the total government expenditure was about RM939 million. The expenditure then steadily increased to RM4.2 billion in 1970 (Table 2-1) with the implementation of First Malaysia Plan.

Table 2-1: Malaysian public development expenditure, 1966-2005 (RM Million)

Malaysia Development Plan	Development Expenditure				
	Federal Government	States	Local Government & Statutory Bodies	NFPEs	Total
1MP (1966-1970)	3,244	493	504*	-	4,242
2MP (1971-1975)	7,320	1,313	1,187*	-	9,820
3MP (1976-1980)	21,202	2, 93	1,642*	-	24,937
4MP (1981-1985)	37,045	5,362	-	36,336**	78,743
5MP (1986-1990)	35,300	8,850	-	17,700**	61,850
6MP (1991-1995)	54,705	7,737	6,667	48,549	117,658
7MP (1996-200)	99,037	4,372	-	119,468**	222,877
8MP (2001-2005)	110,000	34,018	-	161,104**	253,355

Notes:

* The figure includes the NFPEs

**The figure includes the local government and statutory bodies

² These five-year plans set out the macroeconomic growth targets as well as public sector development expenditure and the specific program that will be undertaken. The plans also outline the sectors and the economic activities that will be promoted based on their competitive potential and global trends – this provides a cue for private sector investment. The word of ‘Malaya’ was changed to ‘Malaysia’ in 1963.

The early 1970s saw the 'blow out' in government expenditure as a result of the launch of the 20 year New Economic Policy (NEP). This policy was aimed to reduce and eradicate poverty and restructure society. It envisaged a thirty percent equity ownership by Bumiputeras, up from an ownership level of a mere 2 percent at the outset of the NEP era (Aslam and Hassan, 2003). The government's commitment was apparent as there was nearly threefold increase in government expenditure in the Second and Third Malaysia Plans. The introduction of the National Development Policy (NDP)³ in 1980 and Vision 2020⁴ in 1991 further pushed government expenditures. Actual expenditures for the long term Malaysia Development Plan has increased from about RM78.7 billion in the Fourth Malaysia Plan to about RM117.6 billion under the Sixth Malaysia Plan.

The involvement of government in the economy also lead to another concern; the growing numbers of government institutions. The high growth economy in the 1960s, combined with the government strategies to meet the development policies, required the restructuring of existing institutions and the creation of new ones. As noted by Mohamed (2001), the creation of new organisational structures as instruments of development must be seen as a major reform effort, albeit at a structural level, to provide new and expanded services.

According to Abdullah (1988), the institutional arrangements to undertake the social and economic programs of the government 'became complex with the establishment of a plethora of statutory bodies and later, government owned companies' (p.24). The establishment of these institutions are twofold. Along with implementing the government

³ NDP was introduced to replace the NEP, but continued to pursue most of NEP policies. In its review of NEP, the government found that the 30% target of Bumiputera equity had not been met, although the level of poverty had reduced significantly.

⁴ Vision 2020 is a 30 year development with a goal to transform Malaysia into an industrialised and developed nation by 2020. It embodied the NDP and other new key policies and strategies to guide the socio-political and economic development.

development agenda, they are also aimed at assisting the *Bumiputera* community to conduct business. The Malaysian government set up various government controlled organisations to acquire interest in the corporate sector in trust for *Bumiputeras* (Susela, 1999). There were only about 28 statutory bodies in 1957 compared with about 200 in 1981. The number increased to about 500 statutory bodies in 2005. For the NFPEs, there were only 55 in the late 1960s. It then increased sharply to 253 during 1971-1975 and 294 during 1976-1980. The highest number was recorded during 1981-1985 where it stood at 354. Since a significant proportion of public expenditure is channelled through these semi government agencies, the government needed to have an extensive monitoring system to track their performance. These off budget agencies posed a serious challenge in terms of bringing them under some form of executive and also legislative control (Hazman, 1991). The increasing amount of expenditure channelled through these institutional mechanisms shows that they are important in the development of Malaysian economy (See Table 2.1).

The decline of Malaysian economic growth of the 1980s, however, changed the direction of public sector reform. According to Alhabshi (1996), three major issues of concern arose during this time, which were: (1) direct and active participation of public sector in economic activities; (2) increasing public expenditure; (3) increasing expectations for greater efficiency of public expenditures. As a response to these issues, the government undertook a variety of measures, such as the introduction of privatisation and quality management programmes. Consequently, 'programmes and projects were reviewed, subsidy programmes were cut back and deliberate attempts were made to 'downsize' the state – all aimed at reducing the burden of massive public expenditure' (Siddiquee, 2006, p. 342).

As a result of these developments, ‘many public administration scholars have raised concern over the advisability of these convoluted institutional arrangements in promoting the socioeconomic welfare of the public’ (Caiden, 1971, cited in Abdullah, 1988, p. 24). The international funding agencies such as World Bank, Asian Development Bank and International Monetary Fund have also become concerned with the productivity in undertaking a variety of development programs with funds provided by these lenders⁵. According to Abdullah (1988), one of the long problems of many statutory agencies in Malaysia is related to the wastefulness and maladministration.

This section has briefly discussed the rapid change in the economic development in Malaysia. The important aspects of these development includes the increasing sophistication of government activity, the size of government entities and the amount of government expenditure. As discussed, the purpose of these expansions was to solve the societal and economic problems that generally, cannot be performed by the private sector. This idea however may not always be the case, as the expansion of organisations is usually associated with dysfunctional management and bureaucracies. It is therefore reasonable for the public to expect the government to account for its activities. In this context, a comment by Dato’ Shahrir, the Chairman of Public Account Committee of the Malaysian Parliament is worth emphasising⁶. He noted that an effective system of public audit is critical to a good government and for public accountability of the executive. In this situation, an effective system of public audit must not only be regular, but more importantly,

⁵ For example, in a report published by the Asian Development Bank, it found that the Public Works Department of Kedah did not have records about the major assets, depreciation, debt servicing and financial charges. A financial record on the Water Supply Project was also unavailable which meant a financial analysis on the project was not possible. See Project Performance Audit Report on the Kedah Water Supply Project in Malaysia, 1996, Asian Development Bank.

⁶ See Accountability and Good Governance: Auditors Roles – Public Expectations, paper presented at the National Audit Convention, 14 February 2006.

comprehensive and must provide meaningful information on the impact of public programmes.

2.5. The Development of Public Sector Auditing

Since this study focuses on auditing in the Malaysian public sector, this section provides some background information on the historical aspects of how public sector auditing came about. It should be noted that this section does not aim to provide details on historical aspects, but rather, it aims to highlight some of the important events that have had an impact on the present development of public sector auditing in Malaysia.

To a large extent, the development of public sector auditing in Malaysia has been influenced by political and socio-economic systems. This development can be divided into three phases: The Period 1909-1956, The Period 1957-1980 and The Period After 1980.

First Phase: The Period 1909-1956

The first phase, saw the establishment of formal audit institutions in Malaysia (then Malaya) during British colonial administration. The rapid growth in the economy during this time increased demand for trained accountants to help prepare and audit the estates, mills and industrial enterprises owned by the British government. In the early stages, two separate Offices of the Auditor General were established to audit these British interests. This explains the presence of British investments in these territories, then known as Straits Settlements and the Federated Malay States starting from the beginning of the 19th century (Allen & Donnithorne, 1954). One office was responsible for auditing in the Federated

Malay States and the other in the Straits Settlements. The first Auditor General for The Federated Malay States⁷ was appointed in 1906 with an office based in Kuala Lumpur. In 1932, the two offices were merged and the administration was placed under the Director of Colonial Audit in London. Nevertheless, the audit work and the preparation of audit reports were still under the responsibility of the auditors in the Straits Settlements and The Federated Malay States. The Office of the Auditor General traditionally addressed itself to matters which dealt with financial transactions and accounts of British entities. During this time, the emphasised on the audit approach was in the financial transactions for the purpose of strengthening the administrative system of the colonist only (NAD, 2006). The auditors from Britain basically undertook these functions.

Second Phase: The Period 1957-1980

This period started when the Federation of Malaya gained its independence in 1957. The establishment of a new government raised the need for restructuring of the Office of the Auditor General. As a result, a new audit act, known as Audit Act 1957 was passed by the Parliament with new legal provisions of powers and audit functions. The Office of Auditor General was no longer required to report to the British colony but to a Parliament of the Federation of Malaya. Additionally, under these provisions, the audit function was expanded to address matters of regularity, propriety and compliance with statutes and other regulations. Auditors checked the legality of expenditures, ensured that purchases were supported by receipts and that the inventory matched (Malaysian Business, 1981). These new audit functions aimed to ensure that that the executive expenditures were parallel with

⁷ W.J.P Hume was the first Auditor General for Federated Malay States. He is also assumed the role of Auditor General for States of the Straits Settlement. See National Audit Department At a Glance at www.audit.gov.my.

the wishes of parliament and that all spending was properly authorised and recorded. The focus of audit on compliance and financial audits lasted until the end of the 1970s.

In addition to the expansion of audit mandates, this period also saw the expansion of the power of the Auditor General to audit the account of statutory bodies. The previous regulations concerning the audit for statutory bodies called for an audit by the Auditor General, or an auditor appointed by the board of directors of the statutory body with the approval of the relevant minister. Naturally, most boards, given the choice, chose the second option (Malaysian Business, 1981). With the amendment to the Statutory Bodies (Accounts and Reports) Act of 1980, the Auditor General was now authorised to scrutinise the statutory body accounts.

This period also saw the introduction of the post of Auditor General of the Federation of Malaya in 1957. The post, however, was changed to Auditor General of Malaysia with the formation of Malaysia in 1963 and is maintained to this day. Furthermore, the Office of the Auditor General was officially changed to National Audit Department of Malaysia (NAD) in 1963.

Third Phase: The Period After 1980

By the early 1980s, public sector auditing had entered its' third phase. The objective of auditing in the second phase was seen as incompatible with the growing demands and financial pressures on late 20th century governments. While the rapid expansion in public spending in the 1960s and 1970s was in response to public policy initiatives, the situation at that time led to allegations that the government did not have effective control of the

management of the public purse (Mohamed, 2001). As argued by Noordin (1985), Parliament, as an end-user, is not concerned with accounting niceties, but with the successful implementation of policies.

Additionally, the introduction of the Program and Performance Budgeting System (PPBS)⁸ in 1968 further raised the need for a shift in audit emphasis from a regulatory or compliance oriented audit approach to a performance-oriented approach. As stated by the former Auditor General: ‘an audit which would examine how decisions were made and which would focus, not on purchases per se, but on the impact of the expenditures’ (Noordin, 1985, p.3). The traditional budget which highlighted the propriety in use of public funds under each vote appropriated by the legislature was now framed to focus on programmes and activities of government in line with the stated national objectives as outlined in the Malaysia Development Plan.

As a result of this situation, a new section was included into the Audit Act in 1978 to authorise the Auditor General to ascertain whether the public funds were managed efficiently and economically. Two amendments were made to this new section to improve the scope of auditing. The first amendment was made in 1978 through the Amendment Acts A430 and A558. These, among others, required the Auditor General to ascertain if activities: “.... Were carried out or managed in an efficient manner with due regard for economy and avoidance of waste for extravagance...” (Audit Act (1957) A62, Section 6 (d)). The second amendment was made in 1982 and expanded the previous audit scope to

⁸ PBBS is a budget system to allocate resources based on the results, outcomes and the impacts of such program. See Richard D. Young, “Performance-Based Budget Systems,” *Public Policy & Practice*, January 2003, p. 12.

include the effectiveness auditing. The new amendment gave power to the Auditor General to question basic decision making – not the policies themselves but the process (Malaysian Business, 1981).

Initially, the Auditor General faced problems in conducting the performance audit especially in the area of effectiveness of programmes. The Auditor General discovered that performance auditing was far more contentious than financial auditing as it brought the auditor closer to questions of management competence, government policy and demanded great skills and knowledge of auditors. As admitted by T. L. Kulasingham, the Deputy Auditor General:

“Expertise and experience in the area of effectiveness auditing are now being developed by the Auditor General and efforts in this area must necessarily be slow because the Auditor General does not have suitably qualified and experienced staff in certain areas of specialisation and audited agencies have not yet developed their performance measures in evaluating their programmes.”
(Kulasingham, 1987, p.10)

Another major development during this period is the starting point of the Auditor General in contracting out the conduct of audit to private firms especially the financial audit. This practice was implemented because the Auditor General was unable to cope and meet the deadlines in conducting the audits due to an increasing number of the public sector agencies. As a result, financial auditing on Federal and State Statutory Bodies were contracted out to private audit firms in 1986. The Auditor General, however, continues to conduct the performance audit.

2.6. The Role of National Audit Department

As described in the previous section, the establishment of NAD was a cornerstone in the development of public sector auditing in Malaysia. It was seen as an effort to strengthen financial management and public accountability through the audit of accounts and activities of the public sector administration. NAD is the Supreme Audit Institution (SAI) and therefore has been given the mandate to conduct various types of audit in the country. In carrying out the audit functions effectively, the NAD is empowered by two laws; the Malaysian Constitution and Audit Act 1957. For example, under Section 9 (1) and Section 6 of the Audit Act 1957, the NAD is entrusted with the task of ensuring the existence of accountability in the administration and management of public funds through the audit of accounts and activities of the Federal Governments, State Government, Statutory Bodies, Local Authorities, Islamic Religious Council and Miscellaneous Funds. NAD is responsible for carrying out audits on all Federal Government Ministries, Departments and Agencies and the State Governments which includes 27 Federal Ministries and 86 Departments, 13 State Governments, 112 Federal Government Agencies, 139 State Government Agencies, 144 Local Authorities and 15 Islamic Religious Council (Buang, 2007). Additionally, government link companies which received grant from the government or when more than 51% of its share capital is owned by government are also subject to audit.

The NAD is headed by the Auditor General. According to Article 105 of the Constitution, the Auditor General is appointed by the YDPA on the advice of the Prime Minister and after consultation with the Conference of Rulers. The NAD assists the Auditor General to provide an independent review of the performance and financial management of public

sector agencies and bodies in implementing audit mandate. The staffs of the NAD are members of the Malaysian Civil Service and their terms and conditions of their employment are subject to review by the Public Service Commission. Nevertheless, they are delegated with the powers of the Auditor General provided under the Federal Constitution and Audit Act 1957 for carrying out the audit.

The independence of the Auditor General is protected by law. For example, Article 109 of the Federal Constitution states that the Auditor General is not subject to the jurisdiction of the Public Services Commission. The office of the Auditor General though, part of the administrative set-up, is independent from the executive branch of the Government. The Auditor General's independence is further guaranteed by the provision in the Constitution for the appointment, remuneration and security of tenure of office. The Constitution also states that the Auditor General can resign at any time but cannot be removed from the office except as decided by Federal Court. The Auditor General is also granted with adequate powers to obtain any explanation and access to all records and documents including classified documents to enable him to carry out his duties.

The Audit Act 1957 sets out the Auditor General's functions, mandate and powers. Under section 5(1) of Audit Act, the duties of the Auditor General are to examine and audit:

1. the accounts of the federation and states;
2. the accounts of any separate fund established in a state of the federal territory either under Article 97 (3) of the federal constitution notwithstanding any other law to the contrary;

3. the accounts of any public authority or body so provided by law in any case and where it is not so provided, at the request of that authority or body and with the consent of the Minister of Finance to be notified in the Gazette;
4. the accounts of any other body including a company registered under the Companies' Act, in receipt of a public grant or loan and including also the company where more than half of its paid up share capital is held by the federation or the state or a public authority and
5. the accounts of any other public authority if the Minister of finance so requires the Auditor General to audit the accounts in the interest of the public. (Audit Act, 1957)

The three types of audits carried out by the NAD as prescribed by the Audit Act are:

(a) Financial Audit

The purpose of conducting a financial audit is to give an opinion on whether the financial statement prepared by the public sector agencies shows a true and fair view of the financial position. For this type of audit, the Auditor General attests to the accuracy and fairness of financial information in terms of whether they have been prepared in accordance to financial reporting framework requirements. It is mandatory for the Auditor General to conduct the financial audit to certify the financial statements of the federation, states and other public authorities and public bodies as provided by the law.

(b) Compliance Audit

Compared to a financial audit, it is not compulsory for the compliance audit to be conducted to all government agencies yearly. This type of audit is performed on cyclical basis. In compliance auditing, the Auditor General will examine and review the transactions and activities of ministries/departments or agencies to determine whether they have conformed to all laws and regulations. For example, the Auditor General verifies whether the income and expenditures of government departments have been authorised and spent for the designated purposes.

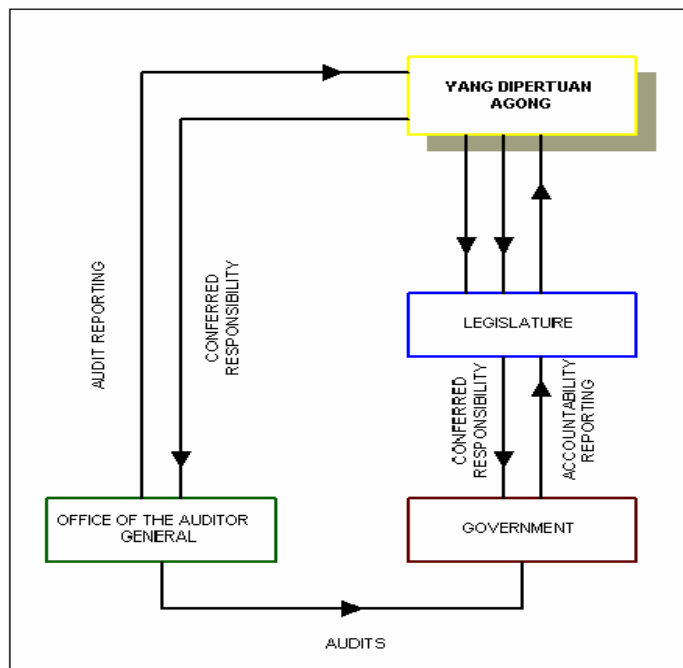
(c) Performance Audit

The performance audit involves studies and evaluation of specified programmes or activities of ministries/department and other government agencies. This is to determine whether the objectives of the programmes or activities are achieved and whether the implementation of the programmes and activities were carried out in an economical, efficient and effective manner. Further discussion on these aspects is provided in Chapter four.

For the purpose of this research, performance audit was selected as the subject of research due to its importance of its functions to the public sector community in Malaysia. Note that the remainder of this thesis will discuss the issues with relation to audit functions and audit reports in the context of performance audit unless stated otherwise.

2.6.1. NAD and the Accountability Processes in Malaysia

Figure 2.1 is a graphical representation of the relationship between the NAD with other institutions and its role in the accountability processes in Malaysia. The process of accountability in the Malaysian public sector starts when the budget is approved by the Legislature (Parliament) and the allocated money, used by the governmental agencies. This budget is important since it provides the plan of intended expenditures of the government agencies. This further raises the need for accounting to classify and record the transactions. As part of the accountability process, the accounting officer of the governmental agencies prepares the financial information and documents for the Parliament. However, the availability of the financial information and documents does not necessarily guarantee the reliability and accuracy of the information. Therefore, there is a need for auditing from an independent body to certify that the financial information illustrates the real financial position and performance of the government agencies.



Source: National Audit Department (2006)

Figure 2-1: The relationship between audit and accountability in Malaysia

The Audit Act 1957 establishes a unique, independent relationship between the Auditor-General and the Parliament. The audit provides independent information to various parties in the accountability processes of the way the government is administering their electoral mandate and the use of resources. The Auditor General's primary responsibility is to audit and certify accounts of the Government. A similar context exists for a performance audit where the Auditor General provides the independent evaluation on the performance of the government. The Auditor General will then report the results of the government accounts and programmes to the YDPA, who will approve it to be presented before the Parliament. Once tabled in the Parliament, the report will finally be deliberated by the Public Accounts Committee, a standing committee of Parliament, to act on their behalf.

In understanding the role of NAD in safeguarding the public accountability, two elements of accountability need to be highlighted: first, the audit of accounting information and second, the publication of audit reports. With respect to the audit of accounting information, Section 16 of The Financial Procedures Act 1957 requires the public accounts, both at Federal and State level be audited by the Auditor General. The Auditor General is required to audit the accounts as stated by Article 106: 'the Auditor General must fulfil any obligation and use the power as stated under the Federal or States Laws with relation to Federal and States accounts with the order of the Yang DiPertuan Agong'. Section 6(d) of the Audit Act 1957 further explains the responsibility of the Auditor General concerning the performance audit. The section states that 'the Auditor General in his examination must determine whether in his opinion the money has been used for the purpose agreed or allowed and activities has been implemented or managed efficiently with the attention to the economy and avoiding waste'. For that purpose, the Federal Constitution and Audit Act 1957 gives the power to the Auditor General to have unrestricted access to all records, books, vouchers and documents or other items required for the audit.

As for the publication of the audit report, this issue is addressed by Article 107 of the Federal Constitution, which states that 'The Auditor General must present the report to YDPA which will direct the audit reports to be tabled in Parliament'. Under Section 9 (Sub-section 6) of the Audit Act 1957, the Auditor General must 'present the authority or the observation on the accounts, money and public store established in Federal or States to the YDPA or States Rulers'.

2.7. Users of Audit Report

The audit reports prepared by the NAD are published and made available to the wider public to fulfil two distinct functions. First, by using the audit information to hold the government accountable for its spending, it helps secure democratic accountability. Secondly, users may act as an instrument of managerial accountability enabling the government to use the information to monitor internal financial control mechanisms and to enhance value for money. Based on these reasons, identifying the potential users is vital for auditors as they need to tailor their findings to the needs of these stakeholders as they may be different from the private sector. The following sections describe some of the users of the NAD's audit reports and their roles. Details of the users who participated in this study is provided in Chapter 5.

2.7.1. Public Account Committee (PAC)

In Malaysia, PAC is the main user of any audit report produced by the NAD. This Committee represents the highest control level on public expenditure in the public sector and is set up by the Parliament to act on its behalf. The PAC is appointed by the House of Representative at the beginning of each parliamentary session and its members are drawn from different political parties represented in Parliament. At present, the PAC comprises 16 members representing 6 major parties in Parliament. Since its establishment, the Committee is headed by a government member of parliament and the deputy is normally from the opposition party.

Generally, the PAC is responsible for examining the audited accounts and information from the Auditor General. Its basis of investigation is the Auditor General's Report, which

is annually laid before Parliament. The investigations normally focus on whether approved funds are disbursed for their approved purpose for and on whether expenditure has been properly incurred. The PAC in its deliberations calls Controlling Officers to account for alleged mismanagement as gleaned from the Auditor General's Report.

Under the Standing Orders of Parliament [S.O:77 (1)], the duties and responsibilities of the PAC have been identified as the examination of:-

- i) the accounts of the Federal Government and the appropriation of the sums granted by Parliament to meet the public expenditure;
- ii) such accounts of public authorities and other bodies administering public funds as may be laid before the House;
- iii) reports of the Auditor General laid before the House in accordance with Article 107 of the Constitution; and
- iv) such other matters as the Committee may think fit, or which may be referred to the Committee by the House.

Therefore, it is clear that the main objective of the PAC is to ensure the proper accountability of funds by public officials. As described above, the Committee needs to examine the Auditor General's report pertaining to whether the monies appropriated were spent according to the authorised limit, approved rules and regulations; and wishes of the parliament. However, with the emphasis now being given by the Auditor General on such questions as to whether government programs are achieving their objectives and whether value for money is being achieved in government spending, the examinations of the Committee are also being extended. The Committee now needs to know whether the

objective of the program has been delivered or on the adequacy of funds, in addition to the cases of waste, extravagance or other examples of poor performance. By summoning departmental officers who are guilty of such administrative lapses, the Committee contributes to the development of more accurate forecasts of expenditure, of better accounting practices and generally of a more sound and prudent administration. These objectives are achievable on the conditions that the Auditor General can provide the high quality, objective and relevant information to the PAC.

2.7.2. Auditees

The management of audited agencies (auditees) are also considered as a direct user of audit reports since the findings and recommendations section are aimed at them and other officials who are interested in a detailed explanation of the findings. Although they may have more detailed information and can conduct their own evaluation of programmes, the auditees may also use the audit reports to look at the recommendations suggested or at least to respond to the criticism raised by the Auditor General. For the purpose of this research, five representatives from the public sector agencies that have being subjected to performance audit were involved. These are: University of Malaya Medical Centre (UMMC), South Kelantan Development Board (KESEDAR), Rubber Industry Smallholders Development Authority (RISDA), Small and Medium Industries Development Corporation (SMIDEC) and the Malaysian Agricultural Research and Development Institute (MARDI). Power (2000) suggests that researchers ‘also need to focus on the growing populations of ‘auditees’ ie on the individuals who have experienced and intensification of checking and evaluation of what they [auditors] do’ (p.115).

2.7.3. Other Users

The public at large may also be interested in the findings of the audit reports. These users may have an interest such as knowing how their money is being spent on different types of activities and evaluating the performance of the agencies implementing the programmes and activities. For the purpose of this study, the public at large consists of politicians, journalists and academics. The main reason for selecting these groups was their influential role in society. Challenges also come from journalists, academics, politicians and others who have no desire to occupy the territory of accountants but can advance some competing discourses that may disrupt and weaken the profession's capacity to secure and expand its domain (Sikka & Willmott, 1995).

Journalists for example, have an important role in informing the public on developments and interpreting the audit reports. According to Kovach (2002), journalists engage in an urgent, forceful and consistent campaign to educate the public with the knowledge and making the public aware of events in society. Khan (2006) states that NAD needs the media to communicate the audit findings and audit functions to the public. If they gain an understanding about the work of the profession, they may report events affecting auditors in a more informed and less sensational manner.

Academics, on the other hand, may also have considerable interest on performance audit reports and use the reports differently. Academia may use performance audit reports as a source of information in pursuit of their studies (Sloan, 1996). For example, they might be interested on the audit process (such as audit scope, methodology), applications of auditing

standards and auditors' recommendations. In this regards, the way they use the reports and their information needs would be different from other users.

To summarise, users of audit reports in the public sector are differ from the private sector. Instead of accountable to the shareholders, NAD auditors are accountable to the parliament, which is represented by the PAC. Additionally, other users such auditees, politicians, journalists and academics may also used the audit reports for their specific needs. In this context, it is important for auditors to provide the reports that meet the users' information requirements to ensure the users appreciate and value their outputs.

2.8. Public Expectations

In Malaysia, NAD is the only body responsible for auditing public sector organisations. As expressed by the Dato' Shahrir Samad, the chairman of PAC:

“Can we not provide the service expected by and the trust given to us by the public? Of course we can, if not who else?” (Samad, 2006, p.3)

There is a growing demand in expectation by government, parliament and the public for current reporting and acomplete set of accounts, otherwise auditing will continue to be delayed and to that extent reporting will tend to be historical (Kulasingham, 1987). Dato' Shahrir Samad, the chairman of PAC stated: ‘Our effectiveness depends on issues being current’ (Samad, 2006, p.7). Additionally, he also states that ‘the public expectation of the auditing profession is that it can contribute towards creating, building and strengthening the culture of accountability and good governance in both public and private sectors’ (*ibid.*). Therefore, it is necessary for the NAD to re-examine its audit works and functions to meet the expectation and the information needs of the users.

2.9. Issues and Challenges by NAD

The complexity of the public sector environment in terms of its structure, size of public expenditures and number of programmes and activities, however, undoubtedly provide a challenge to NAD to fulfil its objectives in providing and safeguarding public accountability.

The Ninth Malaysia Plan where the Government will commit RM220 billion in expenditure emphasises on outcome rather than output of programmes implemented (NAD, 2006). In this situation, performance auditing, 'would be a tool for identifying and resolving problems, thus increasing efficiency and promoting higher standards of public accountability' (Noordin, 1985). The staggering amounts of public funds and increasing number of public programmes and activities in this new development plan, therefore, raise a need for the auditing of these areas to be reviewed in light of the changes that have taken place since the audit provisions in the Constitution and the Audit Act were introduced in 1957. Although a number of amendments has been made to the laws and there has been substantial improvements in the operations and administration of NAD, the overall accountability of the Auditor General is still subject to debate.

One of the centres of the debate concerns the scope of the audit. Abdullah (1988, p.25), claims that the public sector auditing in Malaysia is still concentrating on compliance issues although a new scope of auditing has been introduced. This is likely because many government agencies still lack qualified and experienced staff in handling, preparing and maintaining the records and accounts. Coupled with the lack of sense of urgency from the management, these government agencies usually delay in submitting their financial

statement to the NAD. The Auditor General attributes the delay to the lack of knowledge by staff in preparing the reports (National, 1995). Thus, Abdullah (1988) maintains that the compliance issues have indirectly diverted the auditor's attention from focusing on performance auditing.

The debate also centres on the issue of adequacy of professional and qualified audit personnel. The shortages of audit personnel limits the focus on compliance audit as it is much more routine rather than performance audit, the latter being a much more intensive investigation that requires relevant development and adequate objective measures of performance (Nordin, 1987). This will undoubtedly pose a big challenge to the NAD given its current staff strength. The total number of staff in the NAD is 1, 559 comprising 17% auditors, 50% assistant auditors, 14% audit clerks and 19% support groups⁹. The shortage of professional auditors therefore, to some extent, can affect the efforts of NAD to focus on performance audit.

Other than that, NAD is also having problems with the timeliness of the publication of the Auditor General's audit report. The three to four year delay, a common practice is yet another indication why past audit reports have had little impact (Malaysian Business, 1981). Although there has been a significant improvement in the timing of publications, the timing gap still exists¹⁰. It was also claimed that the audit report published contained a lack of or inaccurate information. Lim (Parliamentary Opposition Leader) claims 'the

⁹ National Audit Department, www.audit.gov.my. Accessed 21/01/2006.

¹⁰ For example, the Auditor General's Report for 2005 was officially tabled in Parliament in October 2006. At present, the performance audit reports are compiled and published together with the financial and compliance audits. As a result, the Auditor General's Report for the past number of years being fairly substantial documents. In other countries such as the UK, these audit reports were published separately.

Auditor General's Report does not give a full picture of the system, which he believes could be more frightening' (Singh, 2005, p.32).

In addition, there is a concern centred on the independence of the NAD. Some opposition parties and non-governmental organisations believe that NAD is still subject to limitations such as influence from outside parties, particularly the government. This concern is possibly based on comments reported in local newspapers. For examples, it was reported the *New Sunday Times* (2005), the Prime Minister has placed the Audit Department under his care instead of ministers, as was the case in the past. Datuk Seri Dr. Mahathir Mohamad requests the Auditor General to avoid from reporting certain issues for the sake of attracting public and making it sensational (*Berita Harian*, 2002). Additionally, as reported in the *Malaysian Business* magazine, the Auditor General admitted that the 'national interest or policy issues are not mentioned in the report even though the audit may have unearthed problems there' (Singh, 2005, p.32). These, to some extent, show that the NAD is in a situation in which it is subject to interference from other interested parties. Since the performance audit is concerned with the performance of government agencies, it is reasonable to argue or expect that the influence or the pressure on NAD would be greater.

For these reasons, this study is concerned with the conduct of performance auditing in the public sector of Malaysia and whether it meets the users expectations. Chapter four provides further discussion on the issues related to performance audit.

2.10. Summary

The chapter has provided a description of Malaysian history and its public sector compositions. It has put forwards the background of modern public sector in Malaysia and public sector auditing within the country. It has traced the development of public sector auditing and shown that the audit function has shifted emphasis from the financial and compliance audit to that of providing information on economy, efficiency and effectiveness of government agencies' activities. The rapid economical development of the state and the increasing sophistication of government activity have resulted in a very significant increasing demand for the development of the public sector auditing in Malaysia.

This chapter also discussed the main players in the public sector auditing. It has been demonstrated that NAD is the centre of public accountability. Among the users are PAC members, auditees and public at large. While this chapter shows that public sector auditing and has matured and evolved over the years, the public understanding and perceptions on the audit functions and on the audit output shows otherwise. The public seems to be disappointed with the present audit practices, as described in the last section.

The next chapter provides some of the definitions and issues related to the audit expectations gap from the perspective of the private sector.

CHAPTER 3

THE AUDIT EXPECTATIONS GAP

3.1. Introduction

Chapter two described the Malaysian public sector environment in terms of its' composition, public expenditure, the development of its public sector auditing and the public expectations on public sector auditors. This chapter is concerned with the latter; the public expectations of auditors. It reviews previous research on the audit expectation gap from the private sector perspective with a view of understanding the issues investigated. This is because the studies of the audit expectations gap in the private sector are well-established with proven results in terms of its' causes, areas and solutions to the gaps. The knowledge reviewed in this chapter will be used to guide the formulation of the research instrument used to investigate the current state of audit expectations gap in Malaysian public sector auditing.

This Chapter is structured as follows. The next section provides a definition for the audit expectations gap. Section 3.3 discusses the different perspectives on the causes of the audit expectations gap while section 3.4 discusses the nature and structure of audit expectations gap. Empirical evidence with relation to the audit expectations gap from the perspective of the private sector is discussed in section 3.5. This follows with a discussion of the conceptual framework of this study. Finally, section 3.7 offers the summary.

3.2. Definition of the Audit Expectations Gap

At present, there is no generally accepted definition of the meaning of the audit expectations gap¹¹. Several accounting researchers and professional accounting bodies have offered their definitions. For example, Liggio (1974) defines it as the difference between ‘the levels of expected performance as envisioned by the independent accountant and by the user of financial statement’ (p.27). A few years later, in 1978, when the Cohen Commission Report was published, the definition was extended to ‘consider whether a gap may exist between what the public expects or needs and what auditors can and should reasonably expect to accomplish’ (p.xi). Porter (1993), however, argued that the definitions used by Liggio (1974) and the Cohen Commission Report were too narrow as they failed to consider the possibility of substandard performance by auditors. She states:

‘...these definitions are too narrow in that they do not recognise that auditors may not accomplish ‘expected performance’ (Liggio) or what they ‘can and reasonably should’ (CAR). They do not allow for substandard performance. It is therefore, proposed that the gap, more appropriately entitled ‘the audit expectation-performance gap’, be defined as the gap between the public’s expectations of auditors and auditors’ perceived performance’ (p.50).

Other than that, a few researchers also attempt to define the audit expectations gap in general terms. For example, Jennings *et al.* (1993) defined the audit expectations gap as ‘the differences between what the public expects from the auditing profession and what the auditing profession can actually provide’(p.489). Humphrey (1997) defines it as ‘a representation of the feeling that auditors are performing in a manner at variance with the beliefs and desires of those for whose benefit the audit is carried out’ (p.9). According to

¹¹The word ‘audit expectation gap’ was first used in the literature by Liggio in early 1970s. But, the issues related to expectations gap, appeared to exist since late 19th Century. See Humphrey *et al.* (1992).

Humphrey (1997), this definition can be extended to include other issues such as the adequacy of auditing standards and the quality of audit delivery.

However, for the purpose of this research, the definition of the audit expectations gap as explained by Porter (1993) will be applied. Compared to other definitions, Porter's (1993) definition is seen as more precise, comprehensive and practical. As described above, her definition takes into account the possibility of inadequate performance of auditors and also the reasonable/unreasonable expectations by the users which fits the present auditing environment. Although her definition is given in the context of private sector auditing, it is argued that this definition is also applicable to the context of public sector auditing as 'the basic principle governing the issue of audit expectations gap is the same' (Chowdhury, 1996, p.28). Thus, the audit expectations gap in this study refers to the gap between what the users of the performance audit reports *expect* the auditors could and should achieve, and what auditors *believe* they could and should achieve.

3.3. Different Perspectives on the Audit Expectations Gap

A number of causes for the existence of the audit expectations gap have been put forward over the years. Tricker (1982) argues the expectations gap exists as a result of a natural time lag by the auditing profession in identifying and reacting continually to the changing auditing environments and public expectations. For example, a 2002 US study conducted by Ernst & Young found that the fund managers constantly used non-financial performance measures in decision making. In this regard, the public is requesting the expansion of the assurance function to cover not just the financial measures, but also the entire scorecard of an organisation. Assurance on this demand, however had not yet been

given. Lin and Chen (2004) appear to agree with this view by arguing that the audit 'expectations gap emerged as the profession has failed to react' (p.97).

Gaa (1991) pointed out that the audit expectations gap was a direct result of the 'political game between two contending parties' (p.84), between the public and the auditors. This view is supported by Sikka *et al.* (1998) in which they argued that historical and political contexts can give indication 'within which expectations are formed, frustrated and transformed' (p.300). They contend that audit as a social practice is subjected to constantly shifting meanings because the social context of auditing changes continuously through interaction and negotiation. The conclusion from this perspective is that the audit expectations gap will continue to exist.

Humphrey *et al.* (1992) argued that it is the consequence of the contradictions in a self-regulated audit system regulating with minimal government intervention.

'At one level, the profession has emphasised the 'unreasonable' nature of the investing (and wider) public's expectations of auditors. At another level, it has sought to reassure the public and regulators that, despite appearances to the contrary, all is well with the state of professional auditing and that corporate collapse and notable audit failure does not signify any deterioration in the general level of quality and performance'(p.145).

According to these researchers, the conflict is compounded when it comes to communicating the results of an audit due to the existence of various parties with different information needs. Where at one level, the lack of visibility of audit work can cause professional concern about audit quality, any communications which seek to place such work, and its characteristics more clearly in the public gaze can serve, in turn, to undermine audit profitability by clarifying the probabilistic nature of a product sold on its risk-education characteristics (Humphrey *et al.*, 1992).

Another point of view is that the audit expectations gap is a result of corporate failure. This corporate failure, in turn, is regarded as audit failure. Corporate collapse is always accompanied by scrutiny of the roles of auditors and in some cases, litigations on the grounds that they have performed the task negligently (Power, 1994). Such focus is sharpened when the collapse of a company comes only a short time after its financial statements are given an unqualified audit opinion (Dewing and Russell, 2002). Gay *et al.* (1998) argued that the corporate crises 'lead to new expectations and accountability requirements and periods of high standard setting activities' (p.472). This view is supported by the finding of a study by Porter & Gowthorpe (2004) where they suggested the 'significant and unexpected company collapse both in the UK and New Zealand' (p.i), partly contributed to an audit expectations gap in these two countries.

Another reason identified is due to unreasonable expectations and a misunderstanding by the audit reports users over the audit functions. As argued by Boyd *et al.* (2001), user misunderstanding forms part of the elements that compromise the concepts of the audit expectations gap. This view appears to be advanced by the audit profession as a defence to the growing criticism on auditors. As stated by Sweeney (1997):

'The main conclusion of the profession was that users' perceptions of the audit were flawed rather than with any significant problem with the audit itself' (p.20).

This view is consistent with the findings from the Porter & Gowthorpe (2004) study. It found that unreasonable expectations by the public at large were the main factors representing 50% of the audit expectations-performance gap in the UK. Humphrey *et al.* (1992) argued that the audit expectations gap was 'caused by the public's misunderstanding of the audit function, by over-exaggerated responses to the isolated failings of individual auditors and by mis-appreciation of the extent to which the

profession is actively responding to public interest demands and enhancing the quality of audit services' (p.157).

Clearly, from the discussion above, the audit expectations gap exists because of various factors. It is reasonable to point out that the changes in the auditing environment have prompted the expectations questions. However, the underlying reasons for the existence of the audit expectations gap lies on its main players: the auditors and the users. On one hand, it is a direct result of the audit profession failing to respond appropriately to new issues arising from changes in the audit environment. For example, the refusal of auditors to assume responsibility of fraud detection and reporting exercise; and their involvement with non-audit services extended (see Section 3.6) the audit expectations gap. On the other hand, the gap exists due to a misunderstanding or a lack of knowledge of the users over the audit functions. This misunderstanding then leads to unreasonable expectations.

3.4. The Nature and Structure of the Audit Expectations Gap

The existing literature shows that the audit expectations gap consists of different components. To help illustrate this, the Canadian Institute of Chartered Accountants (CICA, 1988) reported that the gap consists of three main components, which are: (1) unreasonable expectation by users (2) inadequate legislation, auditing and accounting standards and; (3) inadequate performance of auditors.

In a later study by Porter (1993), arguably a refinement of the components reported by CICA (1988), she suggested that the expectation gap can be divided into two components,

which consist of: (1) the performance gap and; (2) the reasonableness gap¹². For the former, Porter (1993) referred to the gap as the difference between ‘what society can reasonably expect auditors to accomplish and what they are perceived to achieve’ (p.50). For the latter, she referred to this gap as the difference between ‘what society expects auditors to achieve and what they can reasonably be expected to accomplish’ (p.50).

Furthermore, on the first component, Porter (1993) divided the gap into two subcomponents: deficient performance and deficient standards. She referred to the deficient performance as a gap between the expected standard of the performance of auditors existing duties and the auditors perceived performance as expected and perceived by society. The deficient performance is said to occur when the auditors fail to comply with all the laws and auditing standards in performing their audit. As Gray and Manson (2000) point out, the deficient performance exists when the auditors worked inconsistently with the professional auditing standards. In other words, the auditor’s performance was not up to the level as expected by the public. For the deficient standards, Porter (1993) defined it as a gap between ‘the duties which can reasonably be expected of auditors and auditors existing duties as defined by the law and professional promulgation’ (p.50). This gap is based on the argument that the existing auditing standards and laws are not adequate to require auditors to perform such reasonable duties.

Based on the definition given by Porter (1993) on the reasonableness gap above, one can observe that two possibilities can exist in this gap: reasonable expectations and unreasonable expectations. Porter (1993) argued that public expectations are considered as reasonable if they meet the cost-benefit criterion. For example, a study by Porter &

¹² Other researchers used the term ‘feasibility gap’. See Chowdhury and Inness (1998); Desira and Baldacchino (2005).

Gowthorpe (2004) in New Zealand concluded that the public expectations on auditors to report to the authorities (such as the Police) on illegal acts committed by the auditee's officials and on the embezzlement of the auditee's assets by the senior management are reasonable. They argued that these duties meet the cost-benefit criterion and therefore qualify as responsibilities reasonably expected of auditors to perform. In the UK however, these duties fall under the deficient performance of auditor. If the reasonable expectations of the public are not met by existing professional standards or the profession's performance lies below its standards, the standard and performance should be improved. Therefore, they called for an improvement in auditing standards in New Zealand and an improvement of an auditor's performance in the UK¹³.

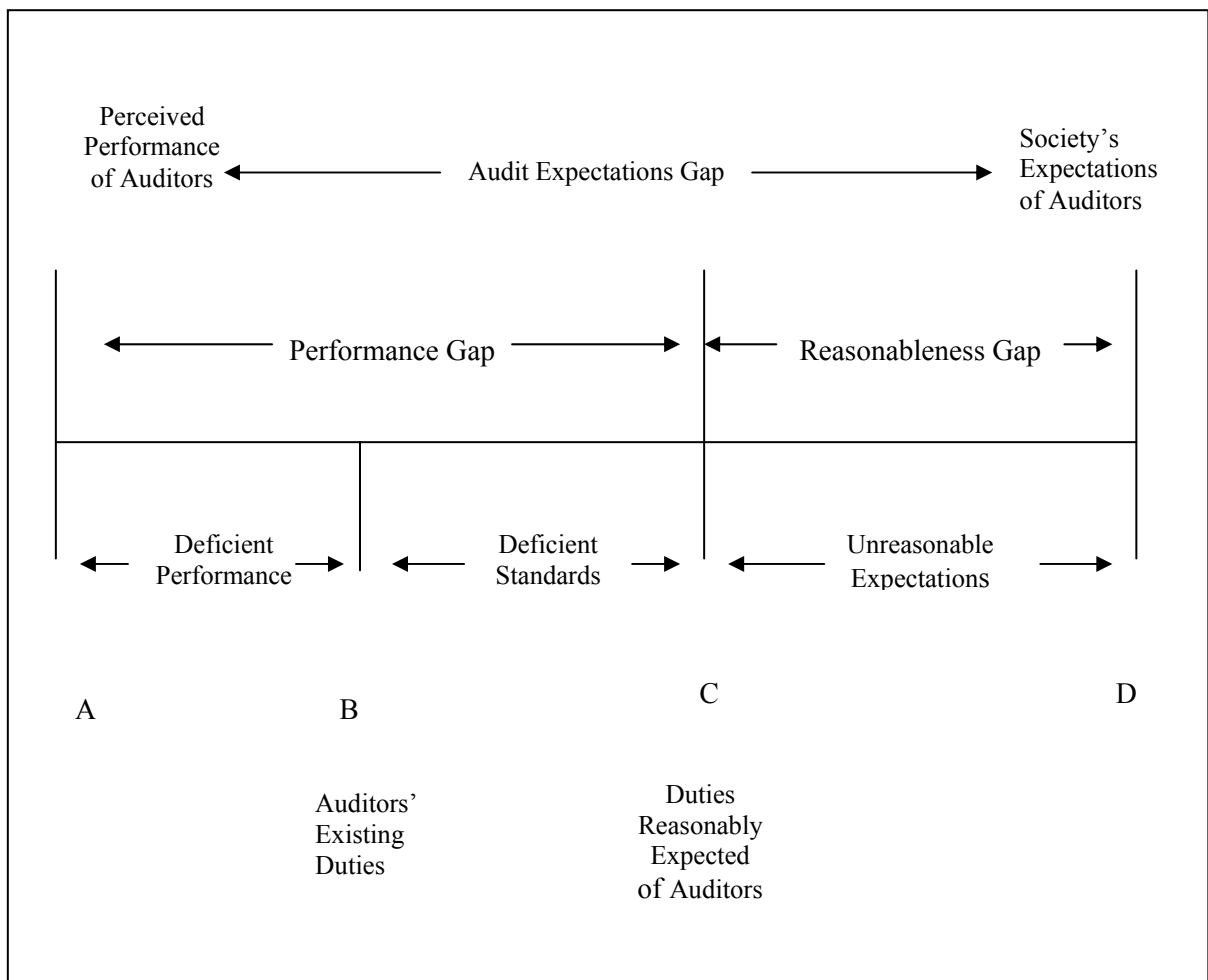
Unreasonable expectations exist when the public expectations are higher than the standards required by the auditors and when those expectations are not viable to perform. For example, the study by Porter & Gowthorpe (2004) found the responsibility to examine and report (in the audit report) on the efficiency and effectiveness of auditee's management and administration to be unreasonable¹⁴. If the public has unreasonable expectations or their perceptions are mistaken, the profession should attempt to improve public understanding. According to Humphrey (1997), the professional auditing bodies can close this gap by educating the users as to what can reasonably be expected from an audit.

The structure of the audit expectations gap, consisting of components and subcomponents suggested by Porter (1993) is illustrated in Figure 3.1. As can be seen, the audit expectations gap ranges from the left to right (from A to D). This represents the differences

¹³ Both countries issued revised auditing standards: SAS 130 Going Concern in the UK in 1994, AS 520 Going Concern in NZ in 1998.

¹⁴ Note that this responsibility is required for auditors in the public sector organisations such as in the UK, Bangladesh and Finland. See Chapter 4 for detail discussion on this responsibility.

of what is perceived of the auditors' performance with what is expected of auditors by society. Point B represents auditors existing duties¹⁵ and point C represents auditors' performance as required by the present standards. The range from C to D represents the public expectations that go beyond the present standards used by auditors. This gap is known as the unreasonableness gap¹⁶. The range from A to C represents the perceived sub-standards performance of auditors by the public.



Source: Porter (1993, p.50)

Figure 3-1: Components of the audit expectations gap

¹⁵ Existing duties are defined by reference to the common law, case law and professional promulgations.

¹⁶ Also referred as ignorance gap (see Singleton- Green (1990); Dewing and Russell (2002))

3.5. Approaches to the Audit Expectations Gap

Generally, two approaches are available for investigating the audit expectations gap. The first is based on the approach by Porter (1993) which has been tested in the context of private sector auditing. The second is based on an approach introduced by Chowdhury (1996) which has been studied in the context of public sector auditing. These two approaches are discussed next.

3.5.1. Porter's Approach to the Audit Expectations Gap

Porter (1993) provides a useful framework for examining the nature and components of the audit expectations gap and the results have contributed significantly to the literature in this area. The key objective of Porter's (1993) study was to test and analyse the structure, composition and extent of the audit expectation-performance gap. The study was tested on four interest groups in New Zealand: auditors, auditees, financial community and the general public. She examined the opinion of these interest groups with regards to 'auditors' existing duties, the standard of performance of these duties, and the duties that auditors should perform'(p.49). Altogether, thirty suggested duties were tested. The result of the study indicated that twenty-five suggested duties of auditors contributed to the audit expectations-performance gap. Specifically, seven duties were due to a deficient performance (for example, expressing doubts in the audit report about the company's continued existence), eight were due to deficient standards (for example, reporting to a regulatory authority suspicious of fraud) and ten were due to unreasonable expectations of society (for example, guarantee audited financial statements are accurate). Summary of the results of this study (according to their gaps) are shown in Table 3.1.

Overall, she concluded that 16% of the total gap arose from sub-standard performance of auditors, 50% from deficient standards and 34% from unreasonable expectations. She then constructed the model of the audit expectation-performance gap as illustrated in Figure 3.1. Five of the remaining duties were found to have no effect on the gap. This is because the interest groups perceived that two of the duties were neither existing duties nor expected to be performed by auditors. For the other three duties, they were satisfied with the performance of auditors. In addition, the study also found that only about 40% of the general public were aware of or have knowledge about auditors duties. She claimed that this factor has influenced the unreasonable expectations of the general public. Auditees and the financial community, however, appeared to have same level of knowledge with auditors. She concluded that the analysis based on different components was a useful means of addressing the problems of narrowing the gap.

Table 3-1 Summary of results of Porter's (1993) study

Categories	Auditor Responsibilities
Deficient Performance	<ul style="list-style-type: none"> • Express doubts in the audit report about the company's continued existence • Detect theft of corporate assets by company directors/senior management • Disclose in the audit report misappropriation of company assets by company directors/senior management • Disclose in the audit report deliberate distortion of financial information • Detect illegal acts by company officials which directly affect the company's accounts • Disclose in the audit report illegal acts which directly affect the company's account.

Deficient Standards

- Report to a regulatory authority doubts about the company's continued existence
 - Report to a regulatory authority misappropriation of company's assets by company directors/senior management
 - Report to a regulatory authority deliberate distortion of financial information
 - Report to a regulatory authority suspicious of fraud
 - Report to a regulatory authority illegal acts uncovered in the company
 - Examine and report on the company's internal controls
 - Examine and report on the fairness of financial forecasts
 - Audited published half-yearly company reports
-

Unreasonable Expectations

- Guarantee audited financial statements are accurate
 - Guarantee the auditee company is solvent
 - Report breaches of tax laws to the IRD
 - Report to a regulatory authority theft of corporate assets by non-managerial employees
 - Disclose in the audit report theft of corporate assets by non-managerial employees
 - Detect illegal acts by company which do not directly affect the company's accounts
 - Disclose in the audit report illegal acts which do directly affect the company's account.
-

Neither existing nor expected duties:

- Prepare the auditee company's financial statements
 - Consider and report on the company's impact on its local community
-

Duties of Auditors perceived to be performed satisfactorily

- State whether financial statements fairly reflect the company's affair
 - Ensure compliance with company legislation
 - Detect deliberate distortion of financial information.
-

3.5.2. Alternative Approach to the Audit Expectations Gap

Chowdhury (1996) provides an alternative perspective in investigating the audit expectations gap. Relying on an accountability based framework, Chowdhury (1996), in his exploratory study examined the existence of audit expectations gap issues in the public sector of Bangladesh. Specifically, the study was concerned with the accountability of the Auditor General to the PAC members and international funding agencies. Accordingly, he utilised accountability-based theory in examining whether the audit concepts would affect the user's perceptions on auditors. The approach is based on arguments provided by Humphrey (1991). Humphrey (1991; cited in Chowdhury and Innes, 1998, p.250) argued that 'perhaps the resolution of the expectations gap rests in the employment of a deeper theoretical perspective: a perspective that goes directly to the underlying concepts of auditing, to the bases on which the audit function is constructed'. These bases would represent the necessary standards that have to be met by the auditor to the users to fulfil the bond of accountability expected in an accountability relationship (Chowdhury, 1996). In achieving the objective of the study, seven concepts of audit were selected: auditor independence, auditor ethics, auditor competence, materiality, audit evidence, truth and fairness and performance audit.

The results of Chowdhury's (1996) study showed that the audit expectations gap exists in the public sector of Bangladesh with significant gaps in issues concerning auditor independence, scope of performance audit, the usefulness of the audit report, auditor competence and timeliness in audit reporting. Chowdhury (1996) identified several factors for the gaps: lack of independence from the Ministry; absence of formal communication between auditors and users; lack of knowledge among users about the function of the

Auditor General (scope of performance audit); inadequate format and contents of the audit report; lack of auditor competence; and lack of timeliness in audit reporting.

An examination of these two studies suggests that research on the audit expectations gap can be broadly classified into two approaches according to its focus and perspective. In the first approach, Porter (1993) specifically looked at perceptions of current and possible duties of auditors. Innes *et al.* (1997) described Porter's study as looking both from the positive and normative point of view. According to these authors, the study on 'what auditors are doing' (p.704) is considered to be a positive approach, whereas the study on 'what auditors should be doing' (p.703) is considered to be a normative approach. It is within this context that Porter investigated the perceptions of auditors and society in terms of the roles and responsibilities of auditors. Although Porter's model has been viewed as beneficial and useful, some researchers argued that this model subject to several limitations. Gray and Manson (2000), for example, argued that the model was limited in its scope because it did not take into account other elements of the audit expectations gap. For instance, independence did not feature, despite the fact that it is an important aspect of the gap, and no attempt was made to show the forces that might cause the components to alter over time, nor were any possible reason for the gap identified (*ibid*, p.517). Others argued that this approach emphasised on the quantitative aspect of the audit expectations gap such as measuring each component in terms of percentage.

In the second approach, the audit expectations gap is examined by analysing the relationship of accountability with the auditors. Within this approach, accountability is viewed as a basis of conduct for auditors when auditing and reporting the results of an audit. The proposition that the failure of auditors to meet these standards means auditors do

not fulfil the accountability requirement. One obvious feature of this approach was to examine the perceptions of what auditors are doing (i.e. positive approach). It is within this context that Chowdhury investigated the perceptions of auditors on the seven audit concepts as mentioned earlier.

In order to establish a solid foundation of research framework, a 'synthesis approach' has adopted for this study. The 'synthesis approach' consists of a combination of the Porter and Chowdhury approaches, as explained earlier. In this study, four audit concepts identified by Chowdhury (1996) and two new audit concepts identified from literature were applied to the model introduced by Porter (1993) in the context of performance auditing. It is argued that synthesising these two approaches would produce a better and more comprehensive picture of the audit expectations gap in the public sector because it tends to identify the relevant components that are lacking in Chowdhury's approach. The conceptual framework for this study is discussed further in the next section.

3.6. Conceptual Framework in This Study

Gray and Manson (2000, p.28) identified fourteen audit concepts in auditing. They further group these audit concepts into four groups (see Table 3.2): credibility (competence, independence, integrity and ethics); process (risk, evidence, audit judgement and materiality); communication (reporting, truth and fairness, and association) and; performance (due care, standards, quality control, and rigour). All the audit concepts identified by Chowdhury (1996) except for 'truth and fairness' and materiality are utilised in this study. The concepts of 'truth and fairness' and materiality are omitted because they are more relevant to the context of financial audit. In addition new concepts, 'auditing

standards' and 'audit reporting' as identified by Gray and Manson (2000) are also included. These new concepts were chosen because they are potentially subject to the divergence of perceptions between the auditors and users, especially in the public sector. Other than that, Chowdhury (1996) also included one audit concept in the public sector known as 'performance auditing'. Instead of using the term 'performance auditing', the present study discussed the issues related to this concept based on the element of economy, efficiency and effectiveness. The discussion is under the theme of 'audit roles'. However, for this chapter, the discussion under this category is limited to the fraud detection and reporting exercises.

The following section look at the auditing literature concerning the audit expectations gap as it relates to each of the audit concepts adopted in the framework for this study. As mentioned earlier, the discussion of these audit concepts is based primarily on the private sector research. The relationship of these concepts to the context of public sector auditing is discussed at the end of each subsection. Due to limited literature in the Malaysian setting, some references are made to the issues recognised in other parts of the world. It is argued that these audit concepts can affect the practice of public sector audit in unique ways. The discussion of these concepts in the context of performance auditing is explained in Section 4.8 of the next chapter.

Table 3-2 Concepts of auditing

Group	Concept
Credibility	Competence Independence Integrity and Ethics
Process	Risk Evidence Audit Judgement Materiality
Communication	Reporting Truth and fairness Association
Performance	Due care Standards Quality control Rigour

Source: Gray and Manson (2000, p.28)

At this stage, it is also useful to distinguish this study from Chowdhury's study. This study differs in several ways. First, a key difference is related to the conceptual framework where Chowdhury's (1996) study was based on an accountability framework. On the other hand, this study applies the framework used by Chowdhury and Porter. Second, this study extends Chowdhury's study by relating the gaps to the components proposed by Porter. In other words, this study attempts to identify whether the expectations gap is due to unreasonable expectations of auditors or a deficiency in auditor's performance, or deficiencies in auditing standards. Third, whereas Chowdhury's (1996) study was based on financial auditing, this study is based on performance auditing. Fourth, the user groups for his study consisted of PAC members and representatives from international funding agencies. In this study, the user groups consisted of PAC members, auditees and other

users. Finally, the study by Chowdhury (1996) was conducted in Bangladesh whereas this study is conducted in Malaysia.

3.6.1. Auditor Independence

Auditor independence is one of the main areas that is consistently vulnerable to audit expectations (Humphrey *et al.*, (1993), Moizer (1997), Sweeney (1997); and Alleyne *et al.* (2006). According to the Independence Standards Board of the American Institute of Certified Public Accountants (2000, quoted in Alleyne *et al.*, 2006, p.621), auditor independence is a ‘freedom from those pressures and other factors that compromise or can reasonably expect to compromise an auditor’s ability to realize unbiased audit decisions’.

Auditor independence is important to both the audit profession and the public in general. For the general public, ‘a lack of auditor independence is putting at risk the investment of ordinary people’ (Gettler *et al.*, 2002). For the audit profession, auditor independence represents professional status and public stewardship (Kleinman and Palmon, 2001) and as Gill *et al.* (2001) stated: ‘independence is the cornerstone of the auditing profession and without independence the auditor’s opinion is suspect’ (p.55). Suspicions on the auditor’s conduct therefore, lead to an increase in the audit expectations gap. The view of Kleinman and Palmon (2001) and Gill *et al.* (2001) are consistent with the view of the audit profession. As The Public Oversight Board’s Panel on Audit Effectiveness (POB, 2000) noted:

‘Independence is fundamental to the reliability of auditors’ reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if audits were not independent in both fact and appearance. To be credible, an auditor’s opinion must be based on an objective and disinterested assessment of whether the

financial statements are presented fairly in conformity with generally accepted accounting principles' (p.109).

Another major point in the above statement is that auditors must be independent not only in fact, but also in appearance. Independence in fact, can be defined as the auditor's state of mind, his or her ability to make objective and unbiased decisions (Dykhhoorn and Sinning, 1982). Independence in appearance refers to 'the perception by a reasonable observer that the auditor has no relationship to the audit client that suggests a conflict of interest' (Pierce, 2006, p.93). In other words, independence in appearance indicates whether the auditor appears to be independent. According to Carmichael and Swieringa (cited in Jeppeson, 1998), 'the users' perceived independence of the individual auditor must be secured as well if the audit is going to be of value' (p.529). In this regard, the independence in appearance is important as independence in fact as the latter would be less significant if the users do not perceive that independence exists.

The Independence Standards Board (1997) in its' framework outlined five types of threats that may impair an auditor's independence (in fact and appearance). These include auditor's acting for their own interest; peer review of audit work; auditor participation in affairs of client; family or other personal relationship with clients; and direct or indirect pressure from stakeholders. Earlier, Mautz and Sharaf (1961, cited in Jeppeson 1998, p.529) identified three types of practitioner independence (i.e. independence in fact) that auditors must preserve:

- 1) Programming independence: i.e. the freedom to select the audit techniques and procedures without the direct or indirect control from outside parties;
- 2) Investigative independence: i.e. the freedom to access and examine the audit evidence relating to the areas, activities, personal relationship and managerial policies.

- 3) Reporting independence: i.e. the freedom to express recommendations or audit opinions without the interference from outside parties.

The issue of auditor independence becomes complicated because the auditors usually perform more than one service such as external auditing, internal auditing and management advisory services (MAS) with the same clients. Many criticisms have been made of the accounting profession for their practice, conducting audit side by side with non-audit services. For example, Canning and Gwilliam (1999) and Freier (2004) believed that the auditors would not be able to provide an independent review for users, if at the same time, they are also providing the consulting type of advice to management on a fee basis. Firth (2002) also expressed the same view with these authors. He argued that this practice would 'increase the economic bond between the auditors and audit client, which later on will affect the auditor independence or a perception of lack of independence' (p.664). According to these authors, this practice would impair independence because in this situation there is a tendency for auditors to secure their business interests rather than stakeholders interests. For example, in the advisory services, the auditor provides advice or recommendations to the auditee, which usually leads to a business decision. An empirical study by Humphrey *et al.* (1993) showed that there is significant disagreement between auditors and users (financial directors, investment analysts and bankers) over the proposition that auditors should not provide management advisory services to its' clients. Beattie *et al.* (1999), in their study also found wide disagreement between the audit partners and financial directors over the issue of providing non-audit services.

Another issue of concern relates to auditors attitudes when there is influence or pressures by the interested parties associated with the companies. There is a concern that the auditors

are subjected to influence from the stakeholders, and as a result, their audit work is compromised. Yet doubts still remain that commercial pressures and the disproportionate power of company management vis-a-vis the auditor are hindering in some way, the quality of audit work (Humphrey, 1997). In this regard, the CICA (1988) proposed the establishment of an audit committee within the company and introducing strict standards of financial reporting. However, this report believed that the most effective strategy in avoiding the compromises due to commercial pressures and therefore ensuring the audit quality, was by determination and a dedication to professionalism on the part of auditors.

To summarise, the auditor practice of providing non-audit services and pressures of stakeholders on auditors are determining factors that contribute to the audit expectations gap in the private sector. As acknowledge by Umar and Nandarajan (2004), the relationship between management and auditors contains both tensions and incentives for collusive and non-independent activity. The next section will show that these two factors are also relevant in the context of the public sector. The concept and issues of auditor independence in the context of public sector are discussed next.

3.6.1.1. Auditor Independence in the Public Sector

In Malaysia, the Auditor General's independence can be viewed from two dimensions. In the first dimension, it depends upon legislative protections which to protect the Auditor General from the direct or indirect control of the executive. This dimension does not exist in the private sector. As outlined in Section 2.6 of the previous chapter, the Auditor General's independence is guaranteed under the Constitution and *Audit Act 1957*. From a public accountability perspective, this high level of independence is crucial, for it helps to

ensure that matters of importance are subjected to thorough examination without interference from governments.

The second dimension is related to the perceived independence of the Auditor General by the users. Although the existence of comprehensive protection referred to above is to ensure independence of the Auditor General and his staff, their practices, however, can result in having a negative effect on the perceived independence of auditors. In this regard, auditors should be constantly aware of factors that might give rise to a perception of conflict of interest and take steps to avoid them. Referring to the NAD Auditing Standards (JAN, 2006, p.5), factors that can affect the public sector auditors' perceived independence are;

- 1) The presence of a relationship between the auditor with audited bodies (financially, personally or formally);
- 2) Prior involvement with the decision of audited bodies which can influence the current operation;
- 3) Initial thought or biases because of personal issues or political ideologies to the individual, objectives or activities of audited bodies;
- 4) Financial interests in the audited bodies; and
- 5) Previously perform special task (as an agent or staff) to the audited bodies

This indicates that the presence of the Constitution and Audit Act cannot guarantee the auditor independence because it can be potentially outweighed by a perception that auditors lack independence and objectivity in conducting an audit. In other words, the way in which the Auditor General performs its functions further reinforces its independent

status. In this instance, the Auditor General needs to distance himself from the actions mentioned in order to maintain the public's perception that he is an independent officer.

However, maintaining the perceived independence in the public sector is not an easy process. One distinct feature of public sector auditing is that the Auditor General cannot withdraw from performing the audit once the engagement has been started. In the private sector, the auditors have a choice not to proceed with an audit if they anticipate they cannot act independently due to pressures from certain parties. The importance of public sector auditing as a control mechanism implies that it should be generally free from influence. Thus, it is vital for the Auditor General to have freedom to fulfil the role demanded on them.

Another factor that can impair the auditor's perceived independence is the practice of the Auditor General offering help to auditees. In Malaysia, it is a normal practice for the Auditor General to offer MAS to auditee such as in the system development and financial management (JAN, 2002; 2006). In relation to this, auditing standards allow auditors to offer help only to the extent of providing the advice and do not involve in decision-making. However, similar to the private sector, this practice could increase a close relationship between auditors and auditees, which in turn can result in decision-making.

In summary, the Auditor General's independence in Malaysia is depend on the legal framework with respect to their appointment, the authority to initiate an audit, conduct and report on audit and the appropriate attitude of the auditors. Nevertheless, maintaining independence has been difficult because of pressures from external parties and the practice of the Auditor General in providing MAS.

3.6.1.1.1 Auditor Independence and the Components of the Audit Expectations Gap

The relationship between auditor independence to the components of the audit expectations gap is straightforward. For example, in the public sector as the audit deals with the government, there is a risk of direct or indirect influence from the government. As part of the responsibilities, the Auditor General needs to audit the ministries including those under the Prime Minister's responsibility. This is where the danger lies. As described in Chapter two, although the king hires the Auditor General, the recommendation was made by the Prime Minister after the consultation with the Conference of Rulers. Moreover, even though the Auditor General is reporting directly to Parliament, the office is still under the care of the Prime Minister's Department. These situations could increase the possibilities of the Auditor General providing the opinions that reside for the auditee. This could be treated as a deficient performance by the Auditor General because he fails to adhere to the standards required. Alternatively, it is reasonable for users to think the Auditor General's independence will be affected.

3.6.2. Auditor Competence

Jessup (quoted in Hassal *et al.*, 1996, p.30) defines competence as 'The ability to perform to recognised standards...A person described as competent in an occupation or profession is considered to have a repertoire of skills, knowledge and understanding which he or she can apply in a range of contexts and organisations'. In the context of auditing, auditor competence also encompasses the above attributes. Flint (1988, cited in Frantz, 1999, p.59) stated that 'Audit competence requires both knowledge and skill, which is the product of education, training and experiences'. In a recent standard issued by IFAC, *International Education Standard (IES) 8 Competence Requirements for Audit Professional*, outlines

that auditors must have the formal education (knowledge) relevant to audit (IES 2), professional skills (IES 3) and be able to apply the professional values, ethics and attitudes (IES 4) to different contexts and organisations. Based on these definitions, it is clear that auditor competence is determined by considering a set of relevant attributes such as knowledge, skill and attitudes.

Gul *et al.* (1994) suggest that the audit be performed and reported 'with due care by persons who have adequate training, experience and competence in auditing' (p.25). According to Chowdhury (1996), there are two aspects governing the perceptions auditor competence: an ability to form a useful opinion and an ability to assess objectively the quality of information. According to this researcher, these two aspects depend on the auditor's education, training, experience and technical skills. This shows that only auditors that possess these four elements would be able to fully comprehend circumstances under examination and also to produce a high quality of audit output.

More important, auditor competence has a direct implication on the auditor independence and audit judgement. Lee and Stone (1995) argued that 'incompetence introduces a probability of dependence existing and, therefore, of an inappropriate audit opinion' (p.1173). The relationship of these three concepts is a direct one, assuming that no other factors affect the auditor independence. For example, in the course of audit work, a competent auditor would be able to apply his or her skills, knowledge and experience over a different range of situations, especially in complex tasks. Because of his or her expertise, the auditor may not only evaluate the evidence, but also may be able to dispute the materials provided by the management. On the other hand, incompetent auditors such as a junior auditor, may find it is difficult to cope with the same audit task. As a result, this

auditor might ask inappropriate questions and be unable to distinguish between relevant and irrelevant evidence. This will make the junior auditor depend on the information and sources of evidence provided by the clients. The judgement therefore will not be as credible as one provided by a competent auditor.

Clearly, for auditors to be considered as competent, they must have a strong educational background with adequate knowledge and skills. These elements can be obtained by acquiring the relevant qualification, proper training and experience. Additionally, the correct attitude is also important. For example, in the course of an audit, knowledgeable auditors should be able to identify the accounting system and internal controls that apply to different types of business. To break this down further, it is expected that auditors have a good knowledge of accountancy including such things as bookkeeping, costing and taxation. Increased knowledge might take the form of managing the audit procedures and techniques, to verifying the business transactions. Nevertheless, DePaula and Attwood (1982, p.15) claim that auditors cannot be considered as competent by having knowledge in accountancy alone as the 'art of auditing' differ considerably from accountancy. There has been suggestions recently that auditors need to come from multidisciplinary academic backgrounds such as economics, information technology, law, computing, and etc., in addition to accounting.

Additionally, relevant skill are also essential. Skills could mean the ability of auditors to apply the knowledge acquired into the field of auditing. For instance, greater skill may be required to immediately recognise the potential risks of the business transactions or accounts prepared using computers and subsequently to propose modifications such as improving the internal control measures. The right attitude is also considered important.

Auditors who do not have the right attitude, such as in the case of fraud, may choose to avoid potential areas where errors or omissions might be found. Since the audit tests have failed to produce any embarrassing revelations, the auditor can produce an unqualified opinion without apparently compromising his or her integrity (Moizer, 1997).

3.6.2.1. Auditor Competence in the Public Sector

The importance of the auditor competence and the concern pertaining to the ability of auditors to work in the public sector environment is better illustrated by looking at standard requirements. For example, under Section 14 of Lima Declaration of Guidelines on Auditing Precepts, issued by the International Organisation of Supreme Audit Institutions (INTOSAI), it recommended the public sector auditors have above-average knowledge and skills and adequate professional experience together with high integrity. In the context of Malaysia, in addition to this guideline, *Standard Pengauditan Jabatan Audit Negara Malaysia* (JAN, 2006, p.3-4) requires the auditors to have a good understanding of the:

1. Federal Constitution, Audit Act 1957 and the relevant statutes and laws;
2. Concepts, standards and generally accepted audit practices;
3. Accounting standards including statutory accounting policy accounting policy set up by government and statutory bodies;
4. Principle of management, information technology, communication and statistics;
5. Systems and control, functions and responsibilities of government organisations/agencies at all levels;
6. Latest auditing techniques and its application to all types of audits.

These standards illustrate that diverse knowledge; skills and experience are necessary elements for public sector auditors. This requirement not only limited to in house auditors but also extended to the private sector audit firms. This is to ensure that the auditors be seen as the right person for the job, in which later on can increase the public confidence on the output of audits.

There are a few reasons for the auditor competence, which are considered importance in the public sector. The public sector agencies normally operate in a heavily regulated environment. Therefore, they are subjected to numerous laws and regulations and this may vary considerably according to the specific operations and activities. This means that auditors are expected to have greater knowledge of the laws and rules governing the agencies. Additionally, accounting system may differ, resulting in different recognition and measurement practices. For example, in Malaysia, the public sector agencies are still using a cash basis for recording accounting transactions. Other than that, the higher level of auditors depends on the evidence provided by subordinates for making judgement and audit opinions. A difficulty may arise with the competence of these lower subordinates as they maybe lack of experience and exposure on the public sector operations. Furthermore, in the public sector the auditors are performing the tasks in which evidence are non-financial information and subjective. Evidence gathered in a performance audit may be predominantly qualitative in nature and requires extensive use of professional judgement (JAN, 2002, p. E-3).

From the explanation above, it is clear that competence depends on the perceptions of users. According to Chowdhury (1996, p.77), there is no absolute 'yardstick' for measuring competence. As the public sector agencies operate within a complex environment, this will

undoubtedly be major challenges for auditors in providing an effective audit. In this regard, auditing the public sector agencies requires the auditors to have an extra element such as an understanding of the specific characteristics of this sector. Furthermore, it shows that the knowledge of the auditor is not only confined to accounting but also to other fields. This is more critical when auditors are involved with a performance audit. The auditor competence in this aspect is discussed further in Section 4.8 of the next chapter.

3.6.2.1.1 Auditor Competence and the Components of the Audit Expectations Gap

Gonzi *et al.* (1993) suggested that competence is not directly observable but is inferred from performance. Earlier, a study by Margheim and Loren (1986) in the context of internal auditor also indicated that auditor competence and work performance are interrelated. According to this author, the high level of auditor competence leads to high work performance and vice versa. This relationship would fall under the performance gap or specifically the 'deficient performance' when applying to the context of this study. On the other hand, the auditor's lack of competence may also be due to ill defined standards where the standards could be insufficiently addressing the issues related to the auditors attributes as described earlier.

3.6.3. Audit Roles

In the private sector, one critical issue that fits into this category is related to the responsibility of auditors to detect and report fraud, irregularities or illegal acts committed by management or employees. The International Federation of Accountants (IFAC, 2007) defines fraud as 'an intentional act by one or more individuals among management, those

charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage' (p.272).

The responsibility of auditors with regard to fraud detecting and reporting is always changing over time. In the early years of auditing, the detection of fraud or irregularities was a key part of the role of the audit. During that time, 'the primary objective of auditing was still the detection of fraud' (Brown, 1962, p.699) and was associated with discovery of defalcations and irregularities. This role remained even after the industrial revolution emerged in the eighteenth century. One of the reasons for the continuation of this role with the auditor is 'to manage the economic crisis and secure public confidence in the financial markets' (Sikka *et al.*, 1998, p.306).

However from the middle of the twentieth century the detection and reporting of fraud has become a secondary objective. The general public appears to have a high expectation that auditors will detect or prevent all fraud, whereas the auditing profession does not regard fraud detection as a primary audit objective (Pound *et al.*, 1997). This responsibility has been shifted to management, as stated by the Cadbury Committee Report in 1992:

'[t]he prime responsibility for the prevention and detection of fraud (and other illegal acts) is that of the board, as part of its fiduciary responsibility for protecting the assets of the company' (p.43).

Clearly, the shifting of responsibility is a concern to the users of audit reports because it contradicts their expectation. Despite the absence of a general legal requirement for auditors to detect and report fraud and difficulties in performing these duties, they are nevertheless expected, by the majority of the financial and business community and the general public, to detect all – or at least all material – corporate fraud (Porter, 1997). In response to this, the auditing profession blames the public for their lack of understanding

of the audit function by placing unreasonable expectations. They believe that their responsibilities are limited to the planning of the audit and to obtain reasonable assurance. For example, IFAC (2007) in its Handbook of International Auditing, Assurance, And Ethics Pronouncements, The Auditor's Responsibilities to Consider Fraud in an Audit of Financial Statements (ISA 240) states that the audit is 'designed to provide reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by error or fraud' (p.276). The auditors only have a responsibility to report the material fraud to management or enforcement authorities. On the other hand, 'the auditors have the right, and not the duty to report suspected cases of non material management fraud (Chowdhury and Innes, 1998, p.256). McInnes (1993) argued that it is unreasonable to expect auditors to guarantee the financial statement has no material fraud. Using the example, he argued that 'if auditors did check every transaction they could still not provide a guarantee that there have been no material fraud as they might still be deceived by collusion and the forging of documents' (p.73).

However, to make matters worse, some of the auditors believed that the expectations gap exists due to their performance being below the required standard. For example, the findings of the study by Fraser *et al.* (2004) found that the auditors did recognise 'a level of need to detect illegal acts that is not matched by a corresponding perception of their ability to detect' (p.116). The auditors themselves, therefore, appear to acknowledge that their responsibility in the area of illegal acts, including fraud, is not adequately discharged (*ibid.*).

Numerous empirical studies have been conducted on this issue, especially to measure the extent of the gap. Most of the findings showed that the gap is critical and not limited to

certain countries but also to other parts of the world. In the UK, for instance, a study by Humphrey *et al.* (1993) amongst auditors, financial directors, bankers, financial journalists and investment analysts, found significantly different views between the auditors and these user groups. About 57% of auditors disagree that the auditor's role should ensure all significant fraud is detected while 86% of users thought otherwise. In Australia, a study by Monroe and Woodliff (1994) concluded that the majority of other groups (accountants, directors, creditors, shareholders and students) believed auditors should be responsible for detecting fraud although auditors thought otherwise. Meanwhile, a study by Epstein and Geiger (1994) found that over 70% of investors believed auditors should be held to absolute assurance for detecting misstatement due to fraud. In Malaysia, Fazly and Ahmad (2004) explored the relationship between auditors and the financial community (brokers, bankers and investors) with respect to the roles that auditors are expected to perform and the roles that they actually perform. The findings revealed that a wide gap was found regarding auditor's responsibilities in fraud detection and prevention. All the users expected auditors to detect all fraud.

3.6.3.1. Audit Roles in the Public Sector

Generally, the duties of the public sector auditors are different to some extent from the private sector. In the public sector, other than performing the financial audit, the auditor is also responsible for conducting other types of audits such as regulatory, compliance and performance audits. As a result, the auditor's role in this aspect may not straightforward as auditors in the private sector. For example, the International Auditing Standards (ISA 240) highlights the issues of concern with regards to the auditor's role relating to the detection and reporting of fraud from the perspective of the public sector. It states that:

‘In the public sector the scope and nature of the audit relating to the prevention and detection of fraud may be affected by legislation, regulation, ordinances or ministerial directives. The terms of the mandate may be a factor that the auditor needs to take into account when exercising judgment’ (IFAC, 2007, p.301).

Since the Auditor General is working in an environment where there are plenty of legislations and regulations, familiarity with the applicable regulatory requirements is highly expected. This is especially the case which requires the Auditor General to report the existence or potential risk of fraud. In Malaysia, other than the International Standards of Auditing, the relevant legislations are the Federal Constitution, Audit Act 1957 and the Federal Treasury Circular. Furthermore, as argued by Chowdhury and Innes (1998), fraud in the public sector not only limited to material misstatement but also may include the waste and corruption.

The consequences of the Auditor General’s failure to meet this role are obvious. The undetected fraud or the failure to report it would leads to loss of public confidence of the role of the Auditor General in safeguarding the public interest. This in turn can damage the reputation of the Auditor General as authorised body in monitoring the accounts and activities of the public sector agencies.

3.6.3.1.1 Audit Roles and the Components of the audit Expectations Gap

A review of the literature in the context of the private sector shows that the auditor’s role in relation to the detection and reporting of fraud can be related to several components. Kapardis (2002) claims that the auditors performance in this role is not up to the level expected due to their lack of knowledge and skills. According to this author, the auditor is

unable to use the appropriate methods and procedures which causes them to fail to detect even the material fraud. One cannot overemphasise the need to enhance an auditor's fraud-detection ability in order to reduce the performance component of the expectation gap (*ibid.*).

Other critics argue that the audit expectations gap exists due to deficient standards. For example, Rezaee (2004) claims that the existing auditing standards are not designed to detect fraud other than material misstatement of financial statement. Clearly, there is a gap between user expectations and the product that independent auditors deliver (*ibid.*).

3.6.4. Auditor Ethics

Shaikh and Talha (2003) define ethics as 'the systematic study of behaviour based on moral principles, philosophical choices and values of right and wrong conduct' (p.159). According to researchers in the field of accounting/auditing, the concept of ethics in auditing is similar to the concept of ethics applied in the general context (see Mautz and Sharaf, 1961; Shaikh and Talha, 2003; Helliard and Bebbington, 2004; McPhail, 2006). As stated by Mautz and Sharaf, (1961):

'Ethical behaviour in auditing or in any other activity is no more than a special application of the general notion of ethical conduct devised by philosophers generally. Ethical conduct in auditing draws its justification and basic nature from the general theory of ethics' (p.232).

According to Gray and Manson (2000), the public expect auditors to act in an ethical manner. Dittenhofer and Senetti (1995) suggested that one way to determine whether the auditor has acted in an ethical manner is by distinguishing between 'what is right and what is wrong' (p.36). The concept of right or wrong – ethical or unethical – relates to that

which is best for humans and inevitably for business and government, for their ultimate objective in services for the good of humans (*ibid.*). In other words, auditors are considered to act in ethical manner if they are serving the public more than personal interest.

The ethical issues exist because the individual auditor has responsibilities to different parties that are usually having conflicting objectives. These include responsibilities to clients, society and the profession (Mautz and Sharaf, 1961; Chowdhury, 1996). For the responsibility to clients, the auditors have to ensure that their findings and recommendations fulfilling the needs of clients otherwise the audit report would be regarded as limited in use. For the responsibility to society, auditors are responsible to protect the public interest ahead of their self-interest and to ensure the high quality of reported financial and nonfinancial information. While for the responsibility to the profession, auditors ‘both individually and collectively have to uphold and observe the ethical conduct prescribed by their regulatory body’ (Chowdhury, 1996, p.72).

Abbot (1983) and Velayutham (2003) suggest that auditors’ ethical issue is better addressed by establishing a professional code of ethics. This is because the code of ethics allows auditors to be aware of the societal expectations and the norms of ethical conduct in the society, which in turn could help the auditors to maintain high ethical standards. As argued by Velayutham (2003), a code of ethics ‘assures public and its clients of its responsibilities and thereby maintenance of its integrity and reputation’ (p.483).

3.6.4.1. Auditor Ethics in the Public Sector

The concept of auditor ethics is also relevant in the public sector and could be considered more important than the private sector. The Auditor General has a wider responsibility and

this include social responsibilities, protecting the public interest. However, the environment such as the public sector working culture and political factors can place them in high ethical dilemma. The improper behaviour in their professional conduct could result in a loss of their integrity and place the NAD as a whole in an unfavourable situation. The adoption of a code of ethics for auditors in the public sector promotes trust and confidence in the auditors and their work. The auditors therefore, are expected to have high standards of behaviour in the course of their work.

3.6.5. Audit Reporting

The audit report is the final output in the audit process. It is at this point where auditors express their opinion. In the case of a financial audit, it is about the accounting information prepared by the management in terms of whether it has been prepared ‘in material respect, in accordance with an applicable financial reporting framework’ (ISA 2007, p.215). The users have always viewed the audit report as an important source of information. According to Gómez-Guillamón (2003), audit reports provide the ‘value added’ to the financial information prepared by management. From the user’s point of view, the audit report is viewed as providing assurance about management representation although it is not absolute.

From the auditor’s perspective, audit reports can be regarded as a main channel of communication to the stakeholders. This can be viewed from two different aspects. In the first aspect, audit reporting is a means of communication to the shareholders. This is a basic statutory requirement for auditors in most countries. In Malaysia, for example, the laws such as the Companies Act 1965, require the audit report to be addressed and provide

an opinion to the shareholders which normally consist of institutional groups and individuals. In terms of the content of information and format of the audit report, the auditors basically follow the International Auditing Standards and guidelines issued by the Malaysian Institute of Accountants. However, the auditing standards and guidelines outline the minimum information content and format, rather than the maximum that must be incorporated in the audit reports.

In the second aspect, audit reporting is a means of communication to the company. Rather than directly reporting to management, communication normally goes through the audit committee, an independent monitoring body within the company. The International Auditing Standards (ISA 260) requires auditors to report to the audit committee (if it exists) or to the board on issues related to corporate governance. These include matters related to an auditor responsibilities, scope and timing of an audit, audit findings and a statement of auditor independence. At present, there is no statutory obligation for auditors to address these issues to the shareholders. These two aspects of communication place the shareholders in a disadvantaged position compared to the company (audit committee). Clearly, there is a wide gap in terms of the types of information communicated. Some shareholders would like to see more information within the audit report but auditors are restricted by confidentiality considerations and they are also constrained by a threat of litigation, which results in what they say and how they say it (Gray and Manson, 2000).

In the private sector, issues of expectations with the audit reporting concentrate on the contents of information and the format of audit reporting. In terms of the contents of the audit report, critics suggest that it is ineffective and not useful if it fails to convey the information needs of those who read and use the reports. The critics argue that the present audit report describes the nature of an auditors work rather than presents the audit findings

or focuses on the appraisal of auditors on internal controls. A number of studies have been conducted to examine the perceptions of auditors and the users on the information that needs to be reported. Noteworthy among the efforts are three studies by Humphrey *et al.* (1993), Manson and Zaman (2001) and by the Institute of Chartered Accountants in England and Wales (ICAEW, 2007). Humphrey *et al.* (1993) studied the contents of information, which users preferred to have included in the audit report. The study found users preferred the auditors to report on the performance aspects of management. However, auditors and management rejected a reporting role which extended to give details on management efficiency to shareholders.

The empirical study by Manson and Zaman (2001) showed that there were significant differences in respondents' views concerning the contents of the audit report. For example, users and directors support the idea of explicit statements in the audit report, of the going concern status of the company and auditors finding in relation to fraud. But, auditors were against the inclusion of the above statements. More recently, a study by the ICAEW (2007, p.12) found that shareholders want auditors to include information related to uncertainty and future risks affecting the company; significant issues and auditor's resolutions; alternative accounting treatment recommended and its reasons; and problems or difficulty encountered in making audit judgments.

Another criticism directed at the audit report is its use of a standardised format and audit terms. The ICAEW (2007) in its report, criticised the present audit report on the basis that it is too long and has a 'boilerplate and standardised wording' (p.6). As a result, the audit report is seen as identical from one company to another and rarely understood by many shareholders due to the technical audit terms used. According to this study, there is a need

for less standardised, more distinct format of the audit report. Accordingly, ICAEW suggested that the format is amended, tailored to the circumstances of the company and avoid the use of standardised and technical wording. According to this report, these amendments would improve the users perceptions of the audit process and of the audit report in terms of its ability to communicate the purpose. At the same time, expansion of the report also serves to increase users perceptions of the usefulness of the audit without any additional audit activity being performed. This is likely to lead to an enhanced reputation and status for the auditing profession.

Many empirical studies have been conducted with regards to the content and format of the audit report. In Australia, Monroe and Woodliff (1994) measured the effectiveness of the new form of audit reporting of the revised Australian AUP3. In a survey amongst auditors, accountants, directors, creditors, shareholders and undergraduate students, respondents were given either old or new (long) forms of audit reports (with variants of auditor's opinion ranging from unqualified to adverse) together with a questionnaire. Significant differences in expectations were found between the auditors and users with the old audit report, particularly in the issues of auditor's responsibilities, reliability of audited statements and prospects of audited entity. Whilst the new audit report was found to be effective in reducing some areas of the gap, there were also concerns over the increase of the gap in areas pertaining to fraud detection and prevention. Similarly in the UK, Hatherly *et al.* (1991) examined the ability of the expanded audit report to change users' perceptions. The study concluded that the expanded audit report contributes to the larger gap of perceptions between the auditors and users in four dimensions: fraud, management of company, investment/disinvestment and performance monitoring. The gap on auditor

accountability, auditor independence, auditor's judgment, extent of audit, management's representations and; specific versus whole dimensions, however, were reduced.

From the discussion, it is apparent that audit reporting is a potential area in which the audit expectations gap would exist. Generally, the difficulty that the auditors face is to ensure the contents of the audit report sufficiently address the information needs of users. Users expect the audit report contains information on the evaluation of the company's internal control system, going concern status and its' risk. Additionally, users expect the format of audit report to be less standardised and tailored to the specific needs of the company.

3.6.5.1. Audit Reporting in the Public Sector

The role of an audit report in the public sector is similar to the private sector in which it also acts as a medium of communication to the users on the result of audit work. One obvious difference is on the scope of reporting where in the public sector, audit reports are examined by a wide range of users. Their reports are considered by a number of third parties including the auditees, wider government authorities and to varying degrees of legislatures (Jones and Pendlebury, 1988). A similar case is applicable to the Malaysian context in which the Auditor General's audit report are used by various parties such as international funding institutions and auditees in addition to parliament. This requirement is clearly highlighted in the NAD's auditing standards. Thus, compared to the private sector, the public sector auditors not only have to consider the information needs of Parliament but to also to take into account the information needs of other users. In this regard, the challenge for auditors is to prepare satisfactory audit reports that meet the

information needs of diverse stakeholders while at the same time ensuring sound accountability to Parliament.

3.6.6. Auditing Standards

In auditing, standards can be viewed as a necessary tool for auditors by assuming a supporting role in the implementation of the previous audit concepts. Nikoloyuk *et al.* (2005) describes two sets of standards applicable to auditors. Specifically, these are ‘the professional standards that guide the conduct of the auditor, and the “standard of measure” which the auditor is using for comparison’ (p.84). This section is concerned with latter, which always refers as auditing standards. The former, also known as Code of Ethics, has been described earlier under the concept of auditor ethics.

According to Gray and Manson (2000), auditing standards ‘provide a minimum level of performance with which auditors must conform and therefore they help to ensure that all auditor’s work complies with that minimum standard’ (p.79). They further note that a standard consists of the following elements: ‘basic rules that auditors must comply; fundamental audit principles and procedures; and explanatory notes to help auditors interpreting and applying the standards’ (p.79). Based on these descriptions, it could be suggested that auditing standards provide the guidelines for auditors on the way to act or perform the audit tasks.

In the private sector, it is common practice for auditors to follow the general auditing standards. Nevertheless, two issues related to auditing standards are noted. First, they are not organised in a way that make the standards clear and easy to understand for the auditors. For example, Moh’d (1989) points out that auditing standards do not determine

the requirements of skills and competence standard. According to Wallace (1993), the professional accounting bodies avoid to publish interpretations statements because of differences between countries in culture, economic, legal and social values.

Second, the auditing standard aim to set the level of quality acceptable for professional performance. According to Gray and Manson (2000), auditing standards are needed because they serve as a benchmark in measuring the quality of audit work. This is achievable because they can narrow the differences of practices among individual auditors. However, it is difficult to determine a quality level because auditing standards are mainly subjective. For example, Zaid (1997) argues that the acceptable levels of quality in auditing are not obvious because they are subjective in nature and do not represent society's interest and values.

3.6.6.1. Auditing Standards in the Public Sector

In the public sector, the national audit institution determines the standards governing the conduct and reporting of the audit. In Malaysia, the NAD uses its own version of auditing standards, called *Standard Pengauditan* (Auditing Standards) in which it applies to all types of auditing. In addition, in the course of auditing, auditors also need to conform to other professional standards and regulations promulgated by the:

- i) Malaysian Institute of Accountants
- ii) International Organisations of Supreme Audit Institutions (INTOSAI)
- iii) Asian Organisations of Supreme Audit Institutions (ASOSAI)
- iv) Audit Act 1957. (see *Standard Pengauditan*, JAN, 2006, p.1)

Pollitt *et al.* (1999), highlights the difficulty of applying auditing standards in the context of public sector auditing, as many information are subjective in nature and absence of precise specification, for example, economy, efficiency and effectiveness. Furthermore, given that public sector operations are varying from one another, the application of same auditing standards is not an easy process. Thus, it can be stated that the application of auditing standards is largely a matter of auditor's judgement from their professional skills, knowledge and experience.

3.7. Summary

This chapter provided a discussion of the audit expectations gap and demonstrated it exists due to differences between the public perceptions and auditors perceptions on the audit functions and auditors work. There was a discussion of different perspectives of the gap, components and main areas of the audit expectations gap from the private sector perspective. The audit expectations gap is exists due to natural time lag of the audit profession to respond to the changing environment, 'politics' between the public and the auditors, influence of important events such as corporate failures and unreasonable expectations of the users. A discussion on Porter's (1993) model showed that there are three components of the gap: deficient performance, deficient standards and unreasonable expectations.

This chapter also discussed the conceptual framework of this study. Six audit concepts were discussed in detail. These concepts are: auditor independence, audit roles, auditor competence, audit reporting, auditor ethics and auditing standards.

To date, no attempt has been made to examine whether the audit expectations gap exists in the public sector with regards to performance auditing in developing countries. A few studies conducted in this area (discussed in the following chapter) were confined to developed countries. Thus, this study is attempting to fulfil this research gap.

CHAPTER 4

THE PERFORMANCE AUDIT

4.1. Introduction

Chapter three reviewed the issues and prior research on the audit expectations gap in the context of financial auditing from the private sector perspective. This chapter serves two purposes. First, to examine the issues associated with the concept of performance auditing and; second, to review prior research on the audit expectations gap with regards to performance audit in the context of the public sector. Examining and reviewing the issues and literature in relation to the performance audit is important because it provides the basis of understanding on the issues to be investigated and the research methods for collecting empirical data. The researcher selects the performance audit as a context of study due to its crucial roles in the Malaysian public sector. As demonstrated in chapter two, the performance audit is important to monitor the performance of government agencies in implementing their programmes. The importance has been emphasised with the increasing government expenditures in the Ninth Malaysia Plan. To date, no researcher attempts to study the effect of carrying out performance audits in Malaysia. Furthermore, as highlighted in chapter one and in a later section of this chapter, studies on the performance audit are still limited especially related to the perceptions of auditors and users towards the performance audit. Thus, there is a possibility for this study to uncover new issues related to perception of the auditors and users in the context of performance auditing.

This chapter is organised as follows. Section 4.2 discusses the relationship between New Public Management and performance auditing. Section 4.3 outlines the definitions and concepts of performance auditing. Section 4.4 outlines the differences between financial audit and performance audit while the needs for performance audit are discussed in Section 4.5. Brief features of performance auditing in the UK, Finland and Bangladesh are highlighted in Section 4.6. Prior research in the audit expectations gap in the context of performance auditing is discussed in section 4.7. This chapter concludes with a summary in section 4.8.

4.2. New Public Management and Performance Audit

In the 1980s, the public sector in most parts of the world experienced significant reform in its administration. This reform has been referred to as ‘New Public Management’ (NPM) (Hood, 1995 & 1996; Pollitt *et al.*, 1999). The reform saw the public sector move from an administration to a management style. It has become much more like the private sector in terms of organisational structures, methods of operations and management style (White and Hollingsworth, 1999). As a result, practices usually associated with the private sector such as privatisation, competitive tendering, outsourcing and so on have been widely adopted in the public sector. Nevertheless, the reforms in the public sector mainly ‘centered on the theme of decentralisation and performance management’ (Pollitt *et al.*, 1999, p.37).

Thiel and Leeuw (2002) pointed out that the objective of NPM was twofold: first, to reduce government expenditures and; second to improve efficiency and effectiveness of government programmes. For the former, the reform was related to the public sector need

to cut government expenditure. This 'led to the budget and financial management reforms' (Pollitt *et al.*, 1999, p.53) such as the accrual accounting and program based budgeting system. For the latter, the emphasis was on the outcomes of the government programmes. Pollitt *et al.* (1999, p.53) described this change as 'managing for result'.

From the accounting aspect, the above mentioned changes have resulted in the 'promotion of 'new' accounting technologies, including performance auditing' (Guthrie & Parker, 1999, p.305). The application of performance auditing in the context of NPM can be seen in several ways such as by relating back to the twofold objectives as pointed out by Thiel and Leeuw (2002). For example, in achieving the objective of reducing the government expenditures, government agencies delegated spending authority to lower subordinates thorough decentralisation. This however, comes with tight spending limits and requires staff to take new responsibility with delivered budgeting. The need for auditing of such developments would appear unarguable (Pollitt *et al.*, 1999). In this case, the performance audit is the most suitable approach as it can provide an assessment on the performance of agencies programmes in utilising the limited resources.

With regard to the second objective of improving efficiency and effectiveness of government programmes, the government agencies are usually given a greater degree of control over the resources. For example, James (2001) in his study found that the use of corporate units in the UK public sector is common and is given 'freedoms from input rules, for example, controls on staffing and budgets, but more targets relating to outputs' (p.21). This practice is in part to ensure the efficiency and effectiveness of the government programmes. According to Mulgan (2001) this 'emphasises on the results and on

accountability in terms of stated objectives provided, a new role for auditors as assessors of results' (p.25).

Pollitt (2003) also lists other possibilities where the NPM and the performance audit are interrelated. First, the NPM can directly affect the traditional framework where the Supreme Audit Institutions (SAIs)¹⁷ are functioning. For example, as described in chapter two, the audit mandates and power of National Audit Department (NAD) have been changed to accommodate this reform. Second, the NPM may lead the SAIs to use a new approach in conducting the audit. For example, due to financial and human resources constraints, the SAIs may contract out some of the performance audit to private firms or hire consultants to assist them in the examination. Third, NPM 'could persuade SAIs to give more attention to the performance audit relative to other activities' (p.58). This is the case in Malaysia in which NAD is concentrating on conducting the performance audit while other types of auditing are outsourced to private firms.

Therefore, it is clear that the performance audit arises as a part of NPM. Based on the above discussion, the NPM has provided a good reason for the establishment of performance auditing. The adoption of the performance audit was 'fed by a strong belief in the measurability of performance in the public sector' (Thiel and Leeuw, 2002, p.268).

4.3. Definition of the Performance Audit

In chapter two, a brief introduction on the performance audit was provided. This section extends this introduction for the purpose of understanding the issues surrounding

¹⁷ SAI is the official and highest auditing body responsible for auditing the public sector agencies.

performance auditing. The definition of the performance audit, just like the audit expectations gap, is also subject to variation. The variations in the audit scope and the differing views of auditors from various academic backgrounds and professional institutions are among the reasons for this confusion. Auditors with a traditional accounting background have developed an approach that emphasises the economy and efficiency concerns while those from the social sciences emphasise the 'program goals and results' (Abdullah, 1988, p.26). As a result, the performance audit is also frequently referred to as value for money (VFM) auditing, comprehensive auditing, management auditing, efficiency auditing and effectiveness auditing (Parker, 1986; Guthrie and Parker, 1999). Although different terms are used to describe the process, they basically describe the same thing (Parker, 1986).

For the purpose of this thesis, the term performance auditing will be used, as it is usually regarded as an extension of the audit beyond but including financial and compliance aspects and also because it is 'the most appropriate common term to denote economy, efficiency and effectiveness' (Hatherly and Parker, 1988, p. 22). Various literatures also recognise the performance audit as the most appropriate common term (see International Congress of Supreme Audit Institution (1986) and Parker (1986)). Furthermore, the term 'performance auditing' has been used in recently by the National Audit Department in Malaysia.

According to Parker (1986), performance auditing is an independent review of the economy and efficiency of auditee operations and of the effectiveness of its programs.

Meanwhile, the International Organisation of Supreme Audit Institutions (INTOSAI)¹⁸ in their report states that performance auditing consists of;

- i) audit of the economy of administration activities in accordance with sound administrative principles and practices and management policies;
- ii) audit of the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements and procedures followed by audited entities for remedying identified deficiencies; and
- iii) audit of the effectiveness of performance in relation to achievement of the objectives of the audited entity and audit of the actual impact of activities compared with the intended impact (INTOSAI (1992), cited in Pollitt et al. (1999)).

Referring to the definition issued by INTOSAI, Pollitt *et al.* (1999) note that the definition ‘also speaks of ‘sound administrative principles’, ‘good management’, and ‘remedying deficiencies’ (p.13). Although there is no agreement on the definition of performance auditing, it is observed that the purpose and direction of this audit is very clear. It is an important tool in assessing and establishing whether the public sector programmes have been implemented economically, efficiently and effectively. As can be seen, clearly all the definitions addressed three core elements: economy, efficiency and effectiveness. These elements are discussed in turn next.

¹⁸ INTOSAI is a professional organisation of SAIs that plays a major role in auditing government accounts and operations. It provides the institutional framework for SAIs in improving government auditing worldwide.

4.3.1. Economy

The concept of economy is associated with the inputs used in the projects or activities. It is about obtaining the resources at a minimum cost but at the same time maintaining the quality of items. Economy is taken to mean the achievement of a given result with the least expenditure of money, manpower or other resources (Henly *et al.*, 1989). White and Hollingsworth (1999) used the term 'spending less' to refer to this process. In the context of Malaysia, the economy is concerned with 'minimising the cost of resources used for such activities without affecting the quality' (JAN, 2002, p. A-2). For example, the economy can be assessed by comparing the cost of a vehicle purchased with another model of similar quality. According to Glynn (1985), a lack of economy could occur when there is overstaffing or overpriced items are involved. Although the concept of economy is well defined, the audit of economy is not a straightforward process. It is often a challenging task for an auditor to assess whether the inputs chosen represent the most economical use of public funds, whether the resources available have been used economically, and if the quality and the quantity of the 'inputs' are optimal and suitably co-ordinated (INTOSAI, 2004).

4.3.2. Efficiency

The concept of efficiency is related to the relationship between the inputs and outputs. Efficiency is about ensuring that a maximum output is obtained from the resources devoted or conversely that a minimum level of resources are devoted to a given level of output (Glynn, 1985). An example for the former is the increasing number of patients served in a hospital with existing resources while the reduction in the cost of repairs and maintenance of vehicles is an example of measuring the efficiency for the latter. Inefficiency would

occur when there is an oversupply or excess of resources. White and Hollingsworth (1999) used the term 'spending well' to refer to this process. In the context of Malaysia, efficiency is 'the relationship between the outputs (in terms of goods and services) produced and the resources used to produce them' (JAN, 2002, p.A-2).

4.3.3. Effectiveness

The concept of effectiveness is the last element in performance auditing. Effectiveness is concerned with the outputs. It is about 'ensuring that the output from any given activity is achieving the desired results' (Glynn, 1985, p.30), regardless of the cost involved. In the context of Malaysia, effectiveness is concerned with 'achieving predetermined objectives with the actual impact compared with the intended impact' (JAN, 2002, p.A-2).

Assessing whether there is improvement in school examination results after the introduction of a tuition program is an example of an audit on effectiveness. The programme is effective if the examination results are improved. In other words, effectiveness looks at whether the programme or activities succeed or not in achieving the objective. Arguably, the programme is ineffective when 'the outputs are not really the one desired or they do not have appropriate impacts on the community' (Ball, 1998, p.54).

McCrae and Vada (1997, p.209) classified the effectiveness audit into three categories called 'Effectiveness I', 'Effectiveness II' and 'Effectiveness III'. According to researchers, Effectiveness I is concerned with the examination of results of the programme. In this category, auditors evaluate the degree of success or failure of the programme compared to the intended policy objectives. Effectiveness II does not only cover

Effectiveness I but also includes the examination of alternative strategies in achieving the policy objectives. In an Effectiveness III examination, auditors extend the mandate in the previous two categories to include the examination of the merits of policy. The focus changes from administrative effectiveness towards wider issues of evaluating the content, objectives and process of the policy itself (*ibid.*, p. 210). In the context of Malaysia, the performance audit mandate covers the first two categories and excludes Effectiveness III.

Based on the above discussion, it is clear that economy, efficiency and effectiveness are related to each other. However, some researchers argue that this is not a straightforward relationship. For example, Power (1997) states that the conflicts exist within the very concept of VFM. Specifically, Power argues that the conflicts occur 'between the theme of fiscal crisis, questions of economy, efficiency and cost control, and the theme of service quality enhancement or effectiveness' (p.44). According to Cutt (1988), 'economy alone deals with price of inputs and is not a measure of value for money' (p.67). He argues that the same case applies to efficiency and effectiveness. In other words, the objective of performance auditing is achievable only after all these elements are addressed. As a result, this relationship may cause the auditors to face difficulty in assessing these three elements especially efficiency and effectiveness. As Pendlebury and Shreim (1990) states:

'The effectiveness in many public services is, of course, difficult to determine. Objectives are often imprecise and ambiguous, and even if they were not, their achievement will frequently be impossible to measure. Under such circumstances, the evaluation of effectiveness is an inherently subjective process and the appropriateness of involving auditors has always been a matter for concern' (p.177).

The difficulty mentioned above is basically due to the lack of well defined measurement criteria. Commenting on what is economic, efficient and effective is obviously not as clear-

cut as commenting on dollar and cent valuations and results (O'Leary, 1996). Without the clear guidelines, auditors will continue to face this problem.

Therefore, it is important for auditors to have a clear understanding of these concepts. The economy is about getting a 'thing' at the right price, 'effectiveness is 'doing the right thing', whilst efficiency is 'doing the thing right' (Ball, 1998, p.54). More importantly, their recognition and awareness of the difficulties and issues surrounding these three elements would help them make correct assessments and informed judgements.

4.4. Comparisons of Performance Auditing with Financial Auditing

Pollitt *et al.* (1999) found that the line of differences between performance auditing and financial auditing 'is not always clear' if looking at the audit practices in different SAIs. But, they agreed that the differences are obvious in the way that they are managed. The focus in this section is for the latter. It is useful at this point to highlight briefly some of the main differences between these two types of auditing. This is because the latter section shows that the characteristics of performance audit identified in this section contributed to the audit expectations gap.

In most significant respects, performance auditing is quite different from financial auditing. Financial auditing is concerned with the examination of the financial statements prepared by public sector agencies. It is designed to provide independent and objective opinions whether the financial information prepared by management has been relevant, and accurate fairly presented and also to assure that money has been spent appropriately. As part of the process, the auditor may examine the transactions in relation to expenditures,

receipts, and also the accounts in whether they are compliant with accounting standards, statutory provisions and other regulations. Performance auditing differs from financial auditing in that the former focus on the implementation of the programs, activities or projects of government agencies. It examines whether programs implemented have achieved their goals economically, efficiently and effectively. This audit in other words, addresses matters that extend beyond the traditional concerns of financial auditing by examining whether the agencies have ‘done the right thing’, followed procedures and used minimum costs.

Another feature that distinguishes performance auditing from financial auditing is its level of standardisation. Financial auditing use guidelines with good standardised procedures and established criterion in conducting the audit such as generally accepted auditing standards and the International Financial Reporting Standards. Contrary to financial auditing, performance auditing is more difficult to standardise because it involves subjective assessment and lack of auditing standards. There is no predictable form of reporting, and there are no ‘generally accepted’ standards for decision making or systems to guide the auditors (Glynn, 1985). As a result, the auditors use different methods and procedures that are suited to a particular programme examined. Performance auditing is much more difficult to standardise as each performance tends to be a project on its own which has to be designed individually (Pollitt *et al.*, 1999).

The difference also can be distinguished in terms of audit reporting. In financial auditing, the auditor is expected to issue a standard opinion on the financial statement prepared by the public sector agencies. In this case, the auditor may issue an unqualified opinion or adverse opinion on those financial statements depending on whether or not he or she is

satisfied that the accounts fairly present the financial position. On the other hand, performance audit reports are more concerned about future performance and long term benefits of particular programmes. The basic purpose of the reports is not simply to criticise past mistakes but to encourage better value for money and to help identify worthwhile improvements in systems and controls (Dewar, 1997). As a result, performance audit reports usually vary in scope, length and focus compared to financial audit reports.

4.5. The Need for Performance Auditing

The auditing literature suggested three reasons for the need of performance auditing in the public sector. It is needed to overcome the limitations of financial audit (Cutt, 1988), to ensure the accountability of government agencies (Glynn, 1985; Henley, 1989; JAN, 2002) and to improve performance of government agencies (Henley, 1989; Innes, 1990; JAN, 2002).

4.5.1. The Needs to Overcome the Limitations of Financial Auditing

As described earlier, the main purpose of financial auditing is to certify that the accounts of government agencies have been prepared fairly, accurately and that the money was spent appropriately according to its purposes. This audit is basically concerned with the financial statements of government agencies, which usually lacks information on the managerial aspects. However, there are often situations where the user groups have an interest in the performance of government agencies, in addition to financial information. According to Cutt (1988), with the expansion of accountability to emphasise on the utilisation of scarce resources, the need arose for auditors to provide ‘some additional information on the value

of outputs' (p.54). He argues that the value of output is not in dollar terms, but rather in terms of the degree of attainment of a set of measures of the level and quality of service provided. This is particularly the case in the public sector where only a few financial measures of performance exist. The roots of performance audit lie in broadening social values which ascribe importance to information on economic performance (Cutt, 1988). Thus, performance auditing can be seen as an attempt to provide an alternative solution to the limitations in financial auditing.

4.5.2. The Needs to Ensure the Accountability of Executive

One of the primary objectives of performance auditing is to enhance the accountability of government agencies by providing wider information to the Parliament and through them to the public. As previously mentioned, the financial audit mainly focuses on financial aspects and of accountability though, this type of audit is still important and needs to be pursued. It 'must not be seen or become the end in the examination of government expenditure' (Abdullah, 1988, p.25). Dewar (1997) argues that whilst a key objective of auditing is to express an opinion on the accuracy of annual accounts and financial statements, the use of public funds and resources imposes further special demands. Therefore, information on financial results alone does not adequately address the full range of stakeholder's interests and information requirements. Accountability in the public sector occurs when both politicians and the public at large are assured that public funds are being spent efficiently, economically and on programmes that are effective (Glynn, 1985).

For example, in Malaysia, the parliament allocates the resources to the government for the implementation of proposed programmes. As part of the monitoring mechanism, the

parliament obviously needs reports on the financial affairs (based on financial transactions) of government agencies. However, since the resources allocated earlier were for specific purposes, the parliament may also need information on how well the government has implemented its policies and programmes. In relation to this, the performance audit was introduced to meet this purpose. One of the main objectives of performance auditing is to assist the legislature in exercising effective legislative control and oversight (JAN, 2002, p. A-4).

4.5.3. The Needs to Improve Performance of Government Agencies

The need for a performance audit becomes obvious with increased government spending. Henley (1989) states that public sector auditors are responsible for two separate tasks. First, the auditors need to ensure accountability of the executive to the Parliament. This task has been explained in the section above. The second task is to ensure the efficiency and effectiveness of the agencies' operations. Morin (2001) shares the same view with Henley (1989). She argues that performance auditing not only ensures and promotes accountability by providing advice and recommendations. In relation to this point, Innes (1990) argues that performance audit would work as a 'deterrent effect' (p.20) in which the audit results and auditors recommendations may provide proper perspectives that encourage government agencies to re-examine their overall management performance. Thus, it can be concluded that a performance audit is a useful tool to improve the performance of government agencies by treating the auditee as a 'client' and by emphasising economic motivation not only for the benefit of the auditee but also for the interest of the public. In the context of Malaysia, other than ensuring the accountability of the executive, the performance audit also aims to improve the performance of government agencies. For instance, under Section A-3 [3] (b) of *Garis Panduan Audit Prestasi* (JAN,

2002), it was stated that an objective of performance auditing is ‘to assist public sector managers by identifying and promoting better management practices’ (p. A-4).

4.6. Performance Audit in Other Countries

This section aims to provide a brief background on the practice of performance auditing in other countries, specifically in the UK, Finland and Bangladesh. The purpose is to highlight some of the main features in these countries that were seen to be potentially influential to the users perceptions of the audit functions and auditor’s work. These countries were chosen by reason of the existence of empirical studies on the audit expectations gap in the context of performance auditing. Furthermore, in terms of practice, the way the NAD conducts performance auditing in Malaysia is not much different from the UK and Bangladesh¹⁹. Thus, this could provide an early indication of the areas of concern for this study. In Finland, the practice is slightly different from Malaysia, which could thus offer a different perspective of an analysis. However, it must be noted that it is not the intention of this section to compare the practice of performance auditing in detail.

4.6.1. United Kingdom

In the UK, performance auditing is known as value for money audit (VFM). The National Audit Office (NAO)²⁰ is the highest SAI and is responsible for conducting the VFM audit of the central government agencies. The NAO is headed by the Comptroller & Auditor

¹⁹ There are two reasons for the similarity of practice in these countries. First, all are the members of the INTOSAI. Therefore, their SAIs is subjected to the same standards and regulations outlined by the INTOSAI. Second, Malaysia and Bangladesh were under the colonial rules before became independence. Any development in the UK would influence the development in these countries especially the case of Malaysia.

²⁰ Other bodies responsible for VFM auditing in UK are Audit Commission, Audit Scotland, Wales Audit Office and Northern Ireland Audit Office.

General (C&AG) and is accountable to the House of Commons. One of the important developments with regards to the VFM was with the passing of the *National Audit Act* in 1983 by the Parliament. Under this Act, the NAO, specifically the C&AG has been given statutory responsibility to examine and report on the economy, efficiency and effectiveness of public spending. The NAO defines the VFM as follows. Economy: minimising the cost of resources used or required (spending less); Efficiency: the relationship between output from goods or services and the resources to produce them (spending well); and Effectiveness: the relationship between the intended and actual results of public spending (spending wisely)²¹. Additionally, this Act clearly prohibits auditors to question the merits of policy objectives²². In relation to this, the Act only allows the C&AG to assess the means government agencies have employed to achieve the policy objectives set by the government and approved by the parliament. The NAO's audit mandate covers the department and executive agencies, other public bodies specified by statute or agreement and bodies receiving public grants to provide public services.

In terms of independence, the *National Audit Act* 1983 guarantees the independence of C&AG from government influence. Besides that, NAO staff are treated as employees of the C&AG, not as the civil servants. This change of status was deliberately intended to emphasise their independence from the executive (Pollitt *et al.*, 1999). However, there is criticism on issue of auditor independence. For example, in his study Funnell (1994), concluded that 'the state auditor was never truly independent from the executive' (p.176). He found out that the executive has been able to control the auditors through financial and procedural mechanisms.

²¹ National Audit Office at <http://www.nao.org.uk>.

²² National Audit Act 1983, s. 6.

Additionally, to encourage professionalism among the staff, the NAO gives them the freedom to choose their specialisation either in VFM or financial auditing. It is also a common practice at the NAO to hire staff on a contract basis, use specialist consultants or experts from the private sector and also academics in terms of helping them with their work such as in the fields of health, defence and information technology. In some cases, the NAO also contracts out the audit work to the private sector (Pollitt *et al.*, 1999).

In terms of reporting, the C&AG is responsible for presenting the audit reports to Parliament, which are examined by the Public Account Commission. The audit reports by NAO can be considered as timely because the C&AG can present reports on individual subjects to Parliament at any time. According to Pollitt *et al.*, (1999), ‘in producing its reports the NAO needs to take account of the fiercely majoritarian and adversarial nature of the wider British political process, to maintain the tradition of independence and non partisan assistance to the legislature, and to avoid being seen as champion of particular policies’ (p. 35).

4.6.2. Finland

In Finland, the National Audit Office of Finland (NAOF) on behalf of Parliament conducts the performance audit. In Section 90 of the Finland Constitution, the status of the NAOF is treated as ‘an independent body affiliated with the Parliament’. The performance audit mandate is stipulated by the Constitution and the *1947 State Audit Act*. Compared to Malaysia and the UK, the Act does not explicitly establish the mandate for conducting the performance audit. As stated in Section 1 of the *1947 State Audit Act*:

‘The task of the State Audit Office shall be to ensure the legality and effectiveness of the state's financial management and compliance with

the budget... The State Audit Office's right to audit the transfer of funds between Finland and the European Union shall be covered by separate legislation.'

Nevertheless, according to Pollitt *et al.* (1999), the statutory right to audit the 'effectiveness of financial management' would extend to include other types of auditing, 'which in English terminology, would be labelled as performance auditing' (p.24). This mandate covers the federal government, provincial and local governments, government linked companies, states joint ventures entities and other entities that receive grants from the government.

Another distinct feature is related to the scope of auditing and its limitations. The Act does not clearly state the objective and limitations of performance auditing. Pollitt *et al.* (1997) see the objectives 'as aiming to ensure that public bodies and public activities are effective and appropriate; in practice this has led to audits (for example in the field of state grants and subsidies) which can be interpreted as questioning the merits of policy' (p.28).

Independence of the Auditor General is guaranteed under the Constitution. The NAOF is headed by the Auditor General who is appointed by the Parliament for a term of six years which is renewable. The independence is preserved by making the Auditor General responsible to Parliament and he or she can only be removed by the Parliament on grounds of serious misconduct. Additionally, the NAOF has powers to take punitive action or impose a surcharge in order to secure access to needed documents and records.

In term of audit reporting, the NAOF produces separate reports on financial and performance audits. Decisions on the final content of the audit report are made by the NAOF but in cases of dispute, auditees comments are incorporated into the final report. It

is a normal practice for NAOF to produce the audit reports around 50-150 pages long. In ensuring the competency of auditors and a high quality of audit, all audit staff at the NAOF have university degrees with different backgrounds such as accounting, public administration, political sciences, economics and sociology.

Some researchers have criticised the conduct of performance auditing in Finland. Pollitt *et al.* (1999), for instance, claim that the NAOF has neglected the accountability aspect of auditing. In their study, they discovered that the investigation tended to focus on broader and cross-sectorial topics, which usually involved several government agencies. As a consequence, they argue that there would be difficulty in pointing out the responsible parties or individuals in case of discovering poor management. According to these researchers, NAOF 'sees itself rather as a neutral 'produce of information' on the effectiveness of the public programmes or policies' (p.77).

4.6.3. Bangladesh

In Bangladesh, the Office of the Comptroller and Auditor General (C&AG) is the supreme audit institution and it is the only body entrusted to carry out the performance audit. The legal authority of the C&AG to carry out the performance audit derives from two main sources: Article 128 of the Constitution of the People's Republic of Bangladesh and the Comptroller and Auditor General's (Additional Functions) Act 1974. Article 128(1) states:

'The public accounts of the Republic and all courts of law and all authorities and offices of the government shall be audited and reported by the auditor general and for that purpose he or any person authorised by him in that behalf [shall] have access to all records, books, vouchers, documents, cash, stamps, securities, stores of other government properties in the possession of any person in service of the Republic.'

Additionally, the Comptroller and Auditor General's (Additional Functions) Act 1974, provides the C&AG with additional authorities such as introducing new rules and directions pertaining to audits including keeping and auditing accounts of government, commercial companies owned by the government, statutory bodies and local authorities. Compared to the UK, Finland and Malaysia, the constitution and audit act in Bangladesh does not specifically mention the authority to carry out a performance audit. Though there is no mention of value-for-money audit, there is no limitation imposed on the authority of the C&AG to conduct VFM audits (Jashim-Uddin, 2002).

The main purpose of performance audits is to provide Parliament with an independent opinion of the economy, efficiency and effectiveness on the public resources used. Performance Audit Manual states that the audit normally applies to three broad areas: 'those activities involving considerable level of resources, projects that are at risk of failing in their objectives and issues which are of concern to Parliament of the PAC' (C&AG, 2000, p.2). The audit mandate covers the ministries, divisions, and offices of the government, statutory public authorities, public enterprise and local authorities.

The constitution also spells out several measures to guarantee the CAG's office independence. Article 128 Section 4(1) states that 'the Comptroller and Auditor-General, in the exercise of his functions, shall not be subject to the direction or control of any other person or authority'. Although C&AG is appointed by the President, the responsibility is to report to Parliament. Additionally, the C&AG auditors have unrestricted access to all records and documents to all government departments or its owned entities. Other than that, the CAG only can serve until the age of 60 or maximum of five years whichever is

earlier. Lastly, only the President, based on the recommendation of a Supreme Judiciary Council can remove the CAG.

In terms of reporting, the C&AG is required to submit reports to the President who shall cause them to be laid before Parliament in accordance with Article 132 of the Constitution. However, criticism has been directed towards the audit reporting practice because it lacked frequency and focused more on compliance and financial audits (Chowdhury and Innes, 1998; Shamsuzzaman and Rahman, 2003).

Other researchers also view the performance audit in Bangladesh is exposed to several weaknesses. Jassim-Uddin (2002), for example, states that the practice of performance auditing in Bangladesh is suffering from lack of professional auditing standards, auditors incompetence and vague performance indicators. He argues that these problems have significantly affected the quality of audit reporting. In a similar tone, Hossain (2002) also claims that auditor incompetence as the reason for performance auditing failing to achieve the objective in improving the performance of government agencies' programmes. This is due to an inability of auditors to identify strengths and weaknesses of the systems or procedures, problems and also offering inappropriate corrective measures.

Nevertheless, the C&AG in improving the performance audit implementation used specialised consultants in carrying out the audit, in addition to the use private audit firms. For the first time there has been outsourcing from the private sector to compliment the skill and efforts of the department (Hossain, 2002).

A scrutiny of the practices in these countries reveals a few significant similarities and differences in some areas. It is obvious that when comparing to the conduct of performance auditing in Malaysia (discussed in chapter two), similarities exist in the practice with the UK and Bangladesh such as in terms of audit mandate, authority and the status of the independence of the Auditor General. This is due to the influence of British colonialism in these countries. Despite the similarities in terms of the legal framework, there are several areas for concern for the practices in Malaysia. The obvious difference is in terms of timeliness of reporting. Auditor General's report in Malaysia are not timely because they are produced on a yearly basis compared to the UK and Finland, which report them individually. Other than that, in Bangladesh and the UK especially, contracting out the performance audit to the private firms is a normal practice in ensuring the timeliness and quality of audit reports. Additionally, the NAD could be viewed as less independent of the executive than in the UK and Finland as the Auditor General in these two countries are appointed by the Crown and Parliament respectively. In Malaysia, although the King appoints the Auditor General, the appointment is based on the recommendation by the Prime Minister. This is not much different from Bangladesh in which the president appoints the C&AG. Based on this analysis, it could be expected that the audit expectations gap in the Malaysian public sector would exist. The next section provides a discussion of previous studies on the audit expectations gap in the context of performance auditing in these countries.

4.7. Prior Research of the Audit Expectations Gap in the Public Sector in the Context of Performance Audit

In this section, studies relevant to the audit expectations gap in the public sector in the context of performance auditing are discussed. Based on the literature review, three relevant studies that explore the perceptions of auditors and users of audit reports in the context of performance auditing were discovered.

In particular, Pendlebury and Shreim (1990) undertook an empirical study in the UK to test the attitudes of external auditors on the conduct of the effectiveness auditing in the public sector services. These external auditors were from three different organisations namely the NAO, Audit Commission and firms of accountants. The study found that there are agreements among the auditors that: the objective of effectiveness auditing is achievable; effectiveness auditors rely more on personal judgment and less on verifiable data; audit teams should consist of auditors from different disciplines and effectiveness auditing is primarily concerned with economy and efficiency rather than effectiveness. The study also discovered that ‘there was little evidence of concern over the involvement of auditors with policy decisions or the need to influence policy decisions’ (p.188). In other words, all the respondents believed that they could prevent themselves from commenting on policy decisions or need to do so in order to carry out effectiveness auditing properly. One unexpected point discovered in the study was that the NAO auditors regards themselves as the most important group in evaluating effectiveness while auditors from the Audit Commission and public firms viewed that managers and service specialists were more important than they were in evaluating effectiveness.

A year later, Pendlebury and Shreim (1991) extend their previous study by examining the attitudes of those subjected to the audit namely public sector managers and finance officers of local authorities in England and Wales in two sectors: the environmental health sector and the finance sector. The results of the study were then compared with the results of the Audit Commission's²³ group in the earlier study. The study found that there were audit expectations gaps for three propositions although they were less obvious. The assertions were regarding whether: i) VFM auditing primarily concerned with economy and efficiency rather than on effectiveness; ii) an effectiveness audit team should include people trained in other disciplines other than auditing (between public sector managers and auditors only); and iii) VFM auditing should be restricted to economy and efficiency and should not cover the effectiveness. They found that the attitudes of auditors and managers differed significantly (large audit expectation gap) in assertion regarding the appropriateness of auditors in making personal judgments on effectiveness auditing. The majority of the managers perceived that the auditor is not the most appropriate person to make such judgments required in an effectiveness audit. This view is different to the earlier study which suggested that the auditor is the most appropriate person to make such a judgement.

Another study, which is worth mentioning here, is the recent study undertaken by Johnsen *et al.* (2001) in Finland and Norway. Although the study did not aim to identify the audit expectations gap, it did examine the perceptions of respondents towards the performance audit in a local government of both countries. Specifically, they explored the perceptions of the auditors and auditees in terms of usefulness of the audit report and the efficiency of performance auditing. The results of these two countries were compared to each other.

²³ In the UK, Audit Commission is responsible to audit the local authorities in England and Wales. This was the reason for Pendlebury and Shreim (1991) compares the results on these groups.

They found that auditees in Finland regarded performance audit reports as not useful compared to auditees in Norway. Auditees perceived that audit reports are lacking valuable information and complicated to understand. While in Norway, the study found that auditees perceived the intended functions of performance auditing were not completely achieved due to auditor incompetence.

In summary, limited studies exist on the audit expectations gap in the context of performance auditing. These studies demonstrate that the audit expectations gap did occur in the areas such as auditor competence (i.e. audit teams from different backgrounds), audit mandate (i.e. the extent of examination of 3Es), and audit reporting (i.e. usefulness of audit reports). Nevertheless, these studies can be regarded as incomprehensive because they are only concerned with some aspects of performance auditing. Other audit concepts are relatively unexplored. Further study in this area is needed to at least validate the findings of previous studies. More importantly, a new study is needed to explore new issues arising as a result of new developments and differences in the public sector environment. The next section discusses various audit concepts related to the performance audit that are relevant to the study of the audit expectations gap.

4.8. Audit Concepts in the Context of Performance Audit

Section 3.6 of the previous chapter discussed the areas and issues related to the audit expectations gap in the public sector in the context of financial and compliance auditing. This section extends that and looks at issues in the context of performance auditing. Again, the limited literature in the context of Malaysia exert the researcher to refer to the issues identified in other countries where appropriate.

4.8.1. Auditor Independence

The issue of auditor independence in performance auditing is more prevalent than in the financial and compliance audits. This has been emphasised by many researchers such as Funnell (1994; 1998), Guthrie and Parker (1999), and Dye and Stapenhurst (1998). For example, Dye and Stapenhurst (1998) stated:

“This was and is true for financial and compliance auditing and is equally, if not more important, for performance auditors, because performance audit reports on government operations have more potential to embarrass a government and its ministers”. (p.8)

Traditionally, from the accountability perspective, the Auditor General is entrusted with the stewardship functions. By holding the government agencies accountable, the Auditor General has fulfilled the constitutional role of public sector auditing. But, with the moves by public sector auditing into areas of economy, efficiency and effectiveness, the auditors may face difficulties in maintaining their independence. Two reasons can be identified for this argument. First, the performance audit, especially the effectiveness element, is often associated with the review of government policy. Effectiveness is a particularly sensitive matter because it has the potential to bring matters of policy into account (White and Hollingsworth, 1999). Power (1997) also argues that auditors would face difficulty in maintaining their ‘neutrality’ (p.51) when auditing the effectiveness element. Accordingly, he argues that there is a possibility for auditors to challenge the policy since it is difficult to distinguish between the effectiveness of achieving a policy objective and the merits of the policy. There is evidence to suggest that the government attempts to compromise the independence of auditors after auditors commented on the merits of the policy which is outside the audit mandate. For example, Guthrie and Parker (1999) found that the Australian Government had reduced the financial allocation to the Australian National

Audit Office after the Auditor General commented on the appropriateness of its policy in the previous year audit report.

Second, the auditors may also be involved in consultation and cooperation with others. It is worth stressing that effective performance auditing can only be carried out with the cooperation of politicians and officers (Butt, 1985, p.73). Pugh (1988, p.56-57) claimed that the auditors may 'involve 'diplomacy' with other parties to resolve issues related to (1) the standards to be used in assessing programme achievement (2) the use of efficiency and effectiveness auditing on the legitimacy, the operational qualities and the public accountability of programmes; and (3) the selection of programmes and matters to be assessed. Therefore, it can be argued that auditors performing under these two conditions may find it difficult to maintain the required level of independence.

A few studies found that the conduct of effectiveness auditing can have some impact on the neutrality of auditors and place them in controversy. Schwartz (1999), for example, argues that effectiveness auditing places auditors in politically sensitive and risky position. While expressing similar argument, Barzelay (1997) claims that 'the audit body risks being drawn into politics in a way that threatens organisational autonomy' (p.247). He argues that these dangers stem from (1) difficulties in distinguishing between a determination that a program is ineffective and the questioning of the merits of policy objectives; (2) the room for subjectivity at each stage of the measurement of effectiveness. This is probably anathema to auditors who have always avoided political involvement (Jones and Pendlebury, 1988).

Surveys undertaken in Canada by Radcliffe (1995; 1999) also found that the Auditor General of Alberta faced problems in maintaining independence. Radcliffe (1999) cited that one of the central concerns of auditors was to establish which kind of recommendations would be credible to government administrators, managers, and politicians. According to this researcher, auditors may avoid from providing certain recommendations under some circumstances, for fearing these recommendations would not be adopted or might affect client relationship. The Canadian Comprehensive Auditing Foundation (CCAF, 1996) stated that;

“Some practitioners...think that the auditor could find themselves in an awkward position when faced with auditing areas where recommendations were implemented. In such circumstances it would be difficult to avoid the perception that the resulting audit opinions may not be as objectives as they ought to be.” (p.283-4).

4.8.2. Auditor Competence

Staffing the audit team is also important in performing the audit. Since performance auditing entails much more than financial considerations, it is likely that auditors will need more than financial skills. Barrett (1996), for example, notes that effective performance auditing only possible with the presence of a knowledgeable and experience auditors, particularly, practical experience in the field being audited. McEldowney (2000) described performance auditing as a ‘blend of conventional auditing skills with management consulting techniques’ (p. 220). This is because auditors need to become familiar with a wide range of organisational contexts and subject matters. Therefore, the auditors must have adequate technical competence to perform the required duty or face the potential damage to the reputation of the profession.

In relation to this issue, the argument against the practice of performance auditing tend to question the appropriateness of auditors trained primarily in accounting and auditing to examine the final output of services such as health care, education etc. As argued by Pendlebury and Shreim (1990), ‘the experts in these services are not accountants but professionals with skills specifically related to the services who presumably would be better placed to make subjective judgements required to evaluate effectiveness’ (p. 179).

There seems to be a consensus that auditors need to have adequate training and proficiency in performing a performance audit. A study done by Pendlebury and Shreim (1990) showed that 80% of respondents agreed or strongly agreed to the suggestion that the effectiveness audit team to include people trained in disciplines other than accounting.

4.8.3. Audit Reporting

A discussion in section 3.6.5 showed two main issues in audit reporting are the content and format of audit reports. These two issues also are present in the context of performance auditing, as the auditors need to report a wider aspect of examination such as the performance information on other agencies. For example, Performance Audit Guidelines (JAN, 2002, p. A-3) stated that performance audits may report on:

- i) the quality of information and advice available to government for the formulation of policy,
- ii) the existence and effectiveness of administrative machinery in place to inform the government whether program objectives and targets have been determined with a view to fulfilling policy objectives;
- iii) whether and to what extent, stated program objectives have been met; and

- iv) the economy, efficiency and effectiveness and ethics of the means used to implement a program or activity

The difficulty arises when the report prepared by auditors needs to meet various needs of the users. Different users may require different information. For example, auditees may have interest on suggestions and recommendations for improving the weaknesses associated with the programmes. On the other hand, the PAC members might interest on audit opinions, which can assist them identifying accountable officers. Thus, it is important for auditors to come out with good audit reports that can fulfill the various information needs of the users. Jones and Pendlebury (1988) suggesting the report should be clear, dispassionate, constructive and contain the evidence to support criticism. This is due to the nature of public sector where any criticism is politically charged and even if no else is moved to comment, an opposition is bound to oppose (Pollitt *et al*, 1999).

An empirical study by Johnsen *et al.* (2001) found the users perceive the quality of performance audit reports was insufficient and the information presented was complicated, due to the lack of reporting standards. In the study, one of the respondents suggested that ‘performance auditing needs to be supported by a new way of thinking and in analysing municipal activities’ (p. 592).

4.9. Summary

This chapter focused on reviewing the issues related to performance auditing in the public sector. These included the influence of NPM on performance auditing, the anticipated difficulties with the concept of economy, efficiency and effectiveness; and the needs for performance auditing. Additionally, it also reviewed the empirical studies on the audit expectations gap in relation to performance audit.

Clearly, performance auditing did not arise in isolation but was part of the reform in the public sector. It has been viewed as a useful tool to measure the performance of government agencies and the accountability in managing the resources. However, to carry out this audit in the real world is not a straightforward process. Lacking the establishment measurements and involving subjective assessments would be a big challenge for auditors. The literature demonstrates that the conduct of performance auditing has raised the issues related to auditor independence, auditor competence and audit reporting.

The next chapter presents the research methods used to investigate the existence of an audit expectations gap in the Malaysian public sector.

CHAPTER 5

RESEARCH METHODOLOGY

5.1. Introduction

The last three chapters presented a discussion on the Malaysian public sector auditing environment, a review of the audit expectations gap literature and issues relating to the performance audit. The objective of this chapter is to present the research methodology and methods used to investigate the audit expectations gap with regards to the performance audit in the Malaysian public sector. In deciding on the appropriate research methodology and methods for this study, the following underlying principles were used by the researcher. First, the researcher selects the appropriate methods that can address the issues raised in the research questions. As stated by researchers such as Patton (2002) and Denzin and Lincoln (2005), selecting the appropriate research method depends on the research topic and research questions. Clarke and Dawson (1999) also state that the choice depends on the purpose of the research and research problem. The second principle was based on the suitability of applying the research method in a real life context. McDonnell *et al.* (2000) suggest that other than addressing the research questions, the issue of practicality (for example consent of participants/organisations) in applying research methods in real life settings also needs to be considered. Thus, this chapter outlines the choice of research tools and methods, the appropriate methodology and data gathering techniques used within this methodology.

This chapter is organised as follows. The next section provides a discussion on four research paradigms. Section 5.3 discusses the research methods available for this study. Thereafter, section 5.4 discusses two specific qualitative research methods used in the study; interviews and audit report analysis. The process of collecting data is described in Section 5.5 while section 5.6 explains the process of analysing the data. Section 5.7 discusses the limitations of the study and its solutions. Finally, Section 5.8 provides a summary for the chapter.

5.2. Research Paradigm

Kuhn (as cited in Crotty, 1998) described a paradigm as a ‘unitary package of beliefs about science and scientific knowledge... an overarching conceptual construct, a particular way in which scientists make sense of the world or some segment of the world’ (p.35). According to Guba and Lincoln (1998), a paradigm can be defined as the ‘basic belief system or world view that guides the investigation’ (p.195). These two definitions explicitly illustrate that a research paradigm plays an important role by providing an underlying basis of the research inquiry.

Guba and Lincoln (1998) stated that a research paradigm is intrinsically associated with the concepts of ontology, epistemology and methodology. They suggested that a research inquiry should be based on the concepts of ontology (i.e., the way the investigator defines the truth and reality), epistemology (i.e., the process in which the investigator comes to know the truth and reality) and methodology (i.e., the method used in conducting the investigation). According to these researchers, the answer to questions regarding these

three elements provides an interpretative framework that guides the entire research process including strategies, methods and analysis.

Tashakkori and Teddlie (1998) give an account of four research paradigms mainly positivism, post-positivism, constructivism (or another variant is interpretivism) and pragmatism. The positivism paradigm, in terms of ontological structure, assumes that ‘an objective truth exists in the world’ (Cassell and Symon, 1994, p.2). Positivists believe that ‘individuals are responding agents to this objective environment’ (Morgan and Smircich, 1980) and the process to discover this truth is the job of the researcher. In terms of epistemology, positivists believe that the individuals or the researchers are independent of the research object. Positivism research views reality through a “one way mirror” where the researcher is removed from the object or phenomenon under study (Guba and Lincoln, 1994). In terms of methodology, truth in positivist inquiry is achieved through the verification and replication of observable findings (Guba and Lincoln, 2005), variable manipulations of the research objects (Trochim, 2000) and the application of statistical analysis (Bryman, 1998; Kim, 2003). Positivists therefore, emphasise the use of valid and reliable methods in order to describe and explain the events.

The post-positivism paradigm is a modified version of positivism (Guba and Lincoln, 1994). Similar to positivists, ontologically, post-positivists believe that such an objective truth exists and that the individuals are independent. However, post-positivists have additional views on the objective truth and the position of researchers. They accept the fact that not all-objective truth can be fully verified through direct observation and raw data. As argued by Denzin and Lincoln (1994), ‘only partially objective accounts of the world can be produced because all methods are flawed’ (p.15). According to Tashakkori and Teddlie

(1998), the objective truth cannot be known perfectly due to inherent limitations of the researcher. Relating to the position of researchers, post-positivists believe that the background knowledge and values of the researcher can influence the research inquiry (Reichardt and Rallies, 1994; Denzin and Lincoln, 2005). Thus, in terms of epistemology, post-positivists believe that a researcher is a part of the process of research inquiry. In terms of methodology, post-positivists frequently use multiple methods in the research inquiry. For example, Guba and Lincoln (2005) noted that post-positivists use the modified experimental, falsification hypotheses and may also include qualitative methods. According to these researchers, multiple methods enable researchers to discover not only ‘*etic* viewpoint (the perspective of the observer), but also the *emic* viewpoint (the perspective of the observed or participant)’ (p.12).

In contrast to positivism and post-positivism, the constructivism paradigm has completely different features. Ontologically, constructivists believe in relative truth. They believe that individuals and realities are related to and interact with each other. According to Guba and Lincoln (1989), ‘individuals actively construct their reality, known as a construct, within an environment’. Intrinsically linked to constructivism is the interpretivism paradigm because of the same treatment of reality. In interpretivism, social reality is viewed as significantly socially constructed, based on a constant process of interpretation and reinterpretation of the intentional, meaningful behaviour of people – including researchers (Smith, 1989). Because of this interaction, multiple and subjective realities exist. In other words, interpretivists recognise diverse understanding and the presence of societal relations requiring the need to attain relevant parties’ definitions of situations. Epistemologically, constructivists believe that the researcher is part of the process of acquiring knowledge. The researcher is the primary research tool, not a distant observer (Meriam & Associates,

2002). Thus, from the perspective of constructivist and interpretivist, the research inquiry on the phenomena depends on interactions between the researcher and the participant. Methodologically, constructivists and interpretivists do not believe in experimental or quasi-experimental research designs. Constructivists assume that reality is multifaceted and cannot be fragmented or studied in a laboratory, rather it can only be studied as a unified whole within its natural context (Candy, 1991).

A fourth paradigm, pragmatism, takes a different approach by adopting the most appropriate features of the three paradigms. From the ontological perspective, ‘the pragmatists agree with the positivist and post-positivist view on the existence of the external reality’ (Tashakkori and Teddlie, 1998, p.28). Additionally, they also agree with the constructivists on the existence of a ‘social and psychological world that includes language, culture, human institutions and subjective thought’ (Johnson and Onwuegbuzie, 2004, p.18). In terms of epistemology, pragmatists maintain that there are no right approaches in discovering the truth and therefore, the approaches that produce the most desired outcome are preferable. In terms of methodology, Howe (1998) argues that the researcher can utilise both the quantitative and qualitative methods because they are compatible with each other. Brewer and Hunter (1989) made the same point stating that pragmatism employed multiple research methods to study ‘same general phenomenon probably posing different specific questions’ (p.74).

Based on the discussion above, clearly, the similarities and differences between positivism, post-positivism, constructivism/interpretivism and pragmatism research paradigms are evident. Table 5.1 below provides a summary of the characteristics of these research paradigms based on the concepts of ontology, epistemology and methodology. The

rationale for explaining these paradigms is an attempt to frame the data and to give the reader an appropriate context for the study. For this study, the data was framed within the acceptance of the constructivism/interpretivism paradigm. The researcher selected this paradigm for the following reasons. First, as mentioned in Chapter one, this study is exploratory in nature. Its main objective is to explore the existence of an audit expectations gap. This is well suited within the constructivism/interpretivism paradigm as discussed above, especially when referring to the justification made by Guba and Lincoln (1989). Second, as argued by Sikka *et al.* (1998), auditing is socially constructed - the meaning of auditing is subject to reinterpretation and renegotiation within society. Therefore, this paradigm provides an appropriate perspective to understand the process in which the participants construct their reality. Third, this study examines the perceptions of auditors and users of performance audit reports in which there is no true or false answer. Responses to interview questions are not treated as either true or false versions of reality; rather, the data is treated as displays of perspectives (Silverman, 1993).

Table 5-1 Comparisons of four research paradigms

Paradigm	Ontology	Epistemology	Methodology
Positivism	■ Naïve realism	■Objective point of view ■Knower and known are dualism	■Quantitative
Post-positivism	■Critical transcendental realism	or ■Modified dualism ■Findings probably objectively 'true'	■Primarily quantitative
Constructivism	■ Relativism	■Subjective point of view ■Knower and know are inseparable	■Qualitative
Pragmatism	■ Accept external reality ■Choose explanations that best produces desired outcomes	■Both objective and subjective point of view	■Quantitative and qualitative

(Source: Tashakkori and Teddlie, 1998, p.23)

Having established the philosophy underlying the research inquiry, it is necessary to establish the research methodology and methods that can be used to address the issues raised in the research questions. The following section provides further discussion on these issues.

5.3. Research Methods

5.3.1. Qualitative and Quantitative Research Methods

Bryman (2001) suggests that 'the distinction between qualitative and quantitative research perspective is really a technical matter whereby the choice between them is to do with their

suitability in answering particular research questions' (p.106). Following this suggestion, it is not the aim of this section to justify which research method is superior to the other. The aim is to provide the reader an appropriate context of study in which research methods are appropriate to answer a set of epistemology premises.

The two distinguishable research methods are quantitative and qualitative approaches. The quantitative research method relies on the collection of data based on numbers. The data is usually obtained by the means of survey questionnaires and then analysed statistically. The quantitative research quantifies the results of people's words, actions and records – the meaning given to the words, behaviours and documents as interpreted through quantitative analysis or statistical analysis (Maykut and Morehouse, 1994). In this approach, numerical results are important because they are normally used to test hypotheses and draw conclusions from the phenomena.

Bryman (2001) noted that the quantitative approach is characterised by certain 'preoccupations' such as measurement, replicability, causality and generalisations. According to Bryman, the quantitative method is preferable because it maintains the distance between the researcher and participants and thus ensuring the objectivity of data. Furthermore, this approach also allow a replication and generalisation of data and analysis of cause and effect using a variety of statistical measures (Bryman, 1998; 2001).

The qualitative approach is another commonly recognised form of research method. Researchers especially in social sciences observed that quantitative methods were subjected to several limitations and were inadequate to explain and clarify the complexities of social phenomenon (Allen-Meares and Lane, 1990; Pabjan, 2004; Kittel, 2006). For

example, it has been suggested that a quantitative method restricts the focus of the study; it assumes that complete objectivity is possible; and it has been proposed that statistical significance ensure neither valid explanation, causation nor generalisation (Allen-Meares and Lane, 1990). Hammersley (1993) argued that quantitative research ‘neglects the uniqueness and particularity of human experience’ (p.16).

Stern (1980) noted that qualitative research is useful ‘to explore substantive areas about which little is known or about which much is known to gain novel understandings’ (p.21). Miles and Huberman (1994) stated that ‘the qualitative researcher embarks on a voyage of discovery rather than one of verification so that his or her research is likely to stimulate new leads and avenues of research that the quantitative researcher is unlikely hit upon, but which may be used as a basis for further research’ (p.13).

The qualitative approach also offers other advantages. Miles (1983) suggests that qualitative data is holistic, robust and real. It expresses a commitment to viewing events, action, norms, values, etc. from the perspective of the people who are being studied (Bryman, 1988) and thus, can produce valuable and more meaningful information (Denzin & Lincoln, 2000; 2005). Qualitative research is holistic, encompassing the broad picture and analyses the links within systems and aims at making sense of a specific context without making any assumptions (Guba and Lincoln, 1981). Berg (1995) claimed that it allows the researcher to share in the understanding and perceptions of respondents.

A qualitative approach was considered appropriate for this research for two reasons. First, from an epistemological point of view, this approach is more relevant to the constructivism/interpretivism paradigm when the assumption is made that ‘multiple

realities' of the audit expectations gap exist. In this regard, the meaning that participants bring to the study represents their constructions of reality and therefore, cannot be treated as objective. Second, from a technical aspect, this study aims to explore the existence of the audit expectations gap, the factors contributing to those gaps and the perceptions of participants on the audit functions and audit reports. This approach can assist the researcher in meeting the objectives of the study because it enables the researcher to question and probe participants in order to gain an insight into their perspective. As noted by Casswell and Symon (1994), qualitative research is used when we want to understand a circumstance in terms of *how* and *why* it occurs. Additionally, as argued by Inu (1996), this method is 'desirable when asking questions about meaning, human value or the understanding of social processes not previously explored or when searching for new theory grounded in the perceptions and traditions of social groups' (p.771). This approach therefore, provides an opportunity to uncover the issues that have not previously emerged in the research. According to Maykut and Morehouse (1994), the 'human instrument is the only data collection instrument which is multifaceted enough and complex enough to capture the important elements of human person or activity' (p.21). The limitations of the quantitative approach are also contributing factors for selecting a qualitative approach. Berg (1995), for example, suggests that a quantitative study based on a survey questionnaire technique does not allow the intercommunication of ideas. In addition, researchers argue that the Malaysian culture is usually non-responsive to the questionnaires due to lack of interest, an agency's policy and the absence of tangible mutual benefits to the participants (Abdul-Rahman and Alidrisyi, 1994; Ahmad *et al.*, 2003). These researchers note that people might dispose of the questionnaire without the presence of the researcher.

Thus, based on the above arguments, particularly the importance of discovery and answering the research questions, qualitative research is best suited to the subject of this research.

5.4. Qualitative Research Methods – Interview and Documents Analysis

After a review of the possible qualitative approaches, the researcher selected the interview and document analysis for collecting data. In qualitative research, the methods available includes 'case study, personal experience, introspective, life story, interview, observational, historical, interactional, visual and text that describe routine and problematic moments and meaning in individual's lives (Denzin and Lincoln, 1994). Guba and Lincoln (1989) argued that people are the instruments for conducting the enquiry and therefore they should use methods compatible with people. The researcher being the instrument leads to the choice of a qualitative methodology wherein the researcher uses feelings, observations, and conversations as a means of collecting data (*ibid.*). The interview and historical text (document analysis) methods were used in order to collect data from participants. The methods were chose because of their superiority compared to the other methods in terms of answering research questions. Other methods such as life story, observation techniques and visual texts were not appropriate because this study sought opinions and perceptions rather than studying behaviour. This is discussed further in the following sections.

5.4.1. Interview

Interviewing is one of the most widely used qualitative methods by qualitative researchers as it provides many advantages over the other methods. One is that research the interview sees the research topic from the perspective of the interviewee and provides an understanding on how and why he or she comes to have this particular perspective (King, 1994). According to Patton (2002), interviews can capture certain elements such as thoughts, feelings, and intentions that are impossible to be observed or measured using other methods. Another advantage relates to the position of participants in the interview. Interviewing provides researchers with an insight into the participant's thoughts, ideas and memories in their own words rather than those of the researchers' (Reinharz and Davidman, 1992). With regards to this study, the aim of the interviews was to examine the perceptions of auditors and users of performance audit reports of the six-audit concepts as mentioned in chapter one. The findings of this method would enable the researcher to identify the existence of the audit expectations gap, the specific components and their causes.

There are three ways in which data collection using interviews can be obtained; mainly face-to-face interviews, telephone interviews and focus group interviews. Denzin (2001) suggests that the type of interview chosen must motivate the participants to transfer the relevant knowledge. Creswell (2003) shared the same view with Denzin (2001) and stated that the choice of data collection should be dictated by the aims of study and the data required to attain the aims. Based on these two criteria, face-to-face interviews were found to be the most suitable technique because of the potential to provide vast amounts of data. Face-to-face interaction is the fullest condition for participating in the mind of another

human being and the researcher must participate in the mind of human beings to acquire social knowledge (Lofland and Lofland, 1995). Guba and Lincoln (1998) contend that face-to-face interviews are more flexible, giving the opportunity to repeat the questions if not understood and do not require literacy on the part of participants. This latter aspect is important as some users such as politicians (other than PAC members) and auditees were not familiar with the literature and terms in auditing. Moreover, this technique provided the researcher the flexibility of choosing other participants when there was no response from certain participants.

Compared to the face-to-face interview, which is usually one-to-one, a focus group interview involves a number of people being interviewed at the same time. Focus group interviews are preferable among researchers because it provides an ‘opportunity to work with a group of people’s ideas’ (Stroh, 2000, p.199) and potentially to discover unexpected issues. However, this approach is not suitable for this research because of the sensitivity of the area of study which might involve some political concerns. As a result, this approach might restrain some participants from expressing their actual views. Telephone interviews also could not be used because this study required long interviews as many concepts needed to be examined and the participants are mostly busy officials. Furthermore, it was considered that it is difficult to encourage participants to talk without the physical presence of the researcher.

According to Aldridge and Levine (2001), interviewing has a wide spectrum of forms namely structured, unstructured and semi-structured. In structured interviewing, the interviewer asks the participants ‘the same series of questions with a limited set of categories’ (Fontana and Frey, 2005, p.702) which is prepared prior to the interviews.

However, this method was not chosen because it is generally accepted to 'provide a little room for variation in response except where open ended questions (which are infrequent) may be used' (*ibid.*). Contrary to structured interviews, unstructured interviews do not adhere to a particular set of questions. Although the information obtained may be vast, the opportunity to understand how the participant structures a particular topic is lost. The interviews used in this research followed a semi structured approach, where the research questions were partially prepared in advance. Burns (1990) noted that semi structured interviewing allows 'more valid response from the informant's perception of reality'. He further states that the perspective of the participant is encouraged rather than that of the researcher. Furthermore, according to Ball (1998) this type of interview provides an opportunity for the interviewer to alter the sequence of questions or probe for more information from participants, depending on their level of understanding. The semi structured interview was thus considered the most appropriate for this study because of its active involvement of the participants and their assumed perception of reality and the researcher had a reasonable pre-knowledge of the issues.

The semi-structured interviews were conducted using an interview guide (see Appendix 1 for a copy of interview questions), which was divided into a number of sections where each section contained general questions and potential probes. Questions in the interview schedules were developed by the researcher based on research on the audit expectations gap relating to performance audit. Several drafts were made and reviewed after consultation with two academic supervisors prior to the finalisation of the interview questions.

There are a number of reasons for employing the interview guide in this study. Firstly, the researcher wanted to ensure that all the key issues of the topic were covered. Secondly, to ensure all participants shared a common understanding of the meaning of the questions. Thirdly, this approach enables the researcher to explore certain areas in more depth, through probing questions not originally included in the interview guide. Smith (1972) described this approach as:

“... a process in which the interviewer focuses her questions on some limited number of points. She may range quite widely around a point, but this would be done only as a means of getting the required information on that particular point” (p. 119).

Fourth, as stated by Flick (2002, p.93), the interview guide enhances ‘the comparability of the data collected across the interview’. Lastly, as argues by Lillis (1999), the interview guide ‘helps minimising bias through the pre-specification of non-directive questions and probes’ (p.87).

For comparative purposes, the interview guide was divided into five sections classified as follows:

Section 1 started with a set of general questions in order to determine the meaning of auditing in general and performance audit specifically and the importance of performance auditing to the users of audit reports.

Section 2 focused on the scope of an audit with the central questions on the mandate of performance audit and the fraud detection and reporting exercise.

Section 3 contained a set of questions on auditor independence, which included the influence of outside parties on auditors and offering help (providing non-audit services) to auditees.

Section 4 focused on audit reporting with the central questions on format and content of performance audit reports.

Section 5 contained a set of questions on auditor competence that included the qualifications and skills of auditors, involvement of private audit firms and hiring auditors from different academic background.

The final section of the interview guide was aimed at examining the perceptions of participants on adequacy of auditing standards and guidelines or laws related to performance auditing. Each question in this section and all other sections also had several sub-questions that followed from the answers given by the participants.

5.4.2. Documents Analysis

In addition to the interview approach, the data from the secondary sources such as an analysis of formal documents and records published by a particular institution was also utilised. Guba and Lincoln (1981) observed that evidence from records and documents provides further insights into the parts of 'lived experience'. As noted by Ghauri *et al.* (1995), data from secondary sources can contain valuable information about the problem under investigation. It helps the researcher to grasp problems better and gives space for a more scientific conclusion and verification. Despite these advantages, document analysis is

also subject to several weaknesses. As cautioned by Denzin and Lincoln (1998) and Ghauri *et al.* (1995), the documents bear the bias of the person writing the report as well as the organisation's perspective. In addition, they may be out of date, thus inappropriate for the purpose of analysis. This can lead to misleading and inaccurate information

In this study, a further analysis on performance audit reports was performed. Specifically, this method was undertaken to identify the contributing factors that cause the audit expectations gap pertaining to the concepts of 'audit reporting' and 'audit scope'. For example, the analysis might show that the inadequacy in the format of audit reporting is one of the factors that causes the gap for this concept. A comparison with the findings from the interviews was made to validate the findings from this analysis. Additionally, this method may shed light on the reasonableness of the users perception by examining the adequacy of audit reports to acceptable standards. Thus, the audit report analysis aims to complement and enhance the information obtained from the interviews and strengthen the research findings. This would make the study more 'convincing and accurate' (Yin, 1994, p.92) in terms of objective interpretation.

Four performance audit reports published in the Auditor General's Report 2003 were chosen for analysis. The NAD provided these reports after the researcher made a formal request. Although, the analysis was limited to four audit reports, this was considered as sufficient since the format and information content do not differ significantly with each other. Names of the auditees and the titles of the reports respectively were KESEDAR – Management of Land Development Programme, UMMC – Nursing Training Programme, SMIDEC – Soft Loan Scheme for Small and Medium Enterprise and University Technology MARA (UiTM) – Management of Food Supplies Programme.

5.4.3. Triangulation

Triangulation is one of the common approaches used by researchers to enhance the validity of research findings. It basically involves the combination of two or more types of data or methods of data collection. As Creswell (2002) described:

‘Triangulation is the process of corroborating evidence from different individuals, types of data, or methods of data collection...This ensures that the study will be accurate because the information is not drawn from a single source, individual, or process of data collection. In this way, it encourages the researcher to develop a report that is both accurate and credible’. (p. 280)

Denzin (1989) identifies four types of triangulation which are data triangulation, method triangulation, investigator triangulation and theory triangulation. Data triangulation involves the use of a variety of data sources in a study. Method triangulation usually involves the use of multiple methods to study one problem. Investigator triangulation entails several investigators examining the same phenomenon (Tellis, 1997). Theory triangulation refers to several investigators with different viewpoints interpreting the same results. Since this study employed an interview and document analysis, it is well suited to methodological triangulation.

Methodological triangulation provides several advantages. For example, Miles and Huberman (1984) stated that it is used ‘to support a finding by showing that independent measures of it agree with it or, at least, do not contradict with it’ (p.266). Different methodologies have the advantage of increasing confidence (Fielding and Fielding, 1986), enriching and validating each other (Modell, 2003). Multiple measures may provide some unique variance which may have been neglected by single methods (Jick, 1979). Also Fielding and Fielding (1986) view triangulation as complementary rather than competitive.

Thus, in the context of this study, the combination of interview and document analysis methods enhanced the holistic understanding of the situation. Furthermore, the findings were considered more trustworthy with the adoption of this approach, for example, on the causes of the audit expectations gap.

5.5. Participant Overview and Selection

Chapter two has briefly described and explained the related parties that have an interest in performance audit reports: auditors from the National Audit Department of Malaysia, PAC members and representatives from the audited agencies. The public at large (such financial journalists, academicians and politicians (other than PAC members) were also identified as relevant parties since they are users of audit reports. Therefore, to a lesser extent, they are also affected by the performance audit. It is argued that each group has different perceptions over the performance audit because of their position or function within society. In total, thirty-six participants agreed to participate in the study consisting fourteen auditors, eight PAC members, six representatives of auditees and eight people from the public at large. In the context of qualitative research, having a sample size of less than fifty interviews is common and sufficient (Williams, 1957; Al-Jader *et al.*, 2000). Furthermore, as argued by Small (2005), the soundness of ‘qualitative work comes from understanding how and why, not understanding how many’ (p.8). Additionally, cost and time considerations also influenced the decisions about the size and type of sample chosen. The profile of each group is briefly described in the following paragraphs.

5.5.1. Auditors

The auditors were identified by the Auditor General with the issued guidelines. The guidelines outlined that auditors must have experience in conducting performance audits. Auditors represented three divisions in NAD (i.e., Statutory Body Division, States Division and Federal Government Division) and represented different levels of management. Initially, the Auditor General identified fifteen auditors for the interviews. However, the researcher was unable to establish contact with one auditor because of a technical error (incorrect telephone number because the auditor was transferred to other division). Thus, in total, fourteen auditors were interviewed. These consisted of 3 State Audit Directors (Higher Management Level), 2 Deputy Directors (Senior Level), 4 Senior Auditors (Senior Level) and 5 Junior Auditors (Junior Level).

5.5.2. PAC Members

There are sixteen current members of the PAC with twelve members representing the government party and four members from opposition parties. However, at the time of this study, the chairman of the PAC had been appointed as a speaker of the House of Representatives and the new chairman had not yet been appointed. Therefore, the chairman was excluded from the list. An attempt was made to contact all the members by email, telephones, faxe and formal letters. Eight PAC members (six from government parties and two from opposition parties) agreed to participate and be interviewed.

5.5.3. Representatives from the Auditees

The auditees were selected based on the list of audit reports appearing in the Auditor General's Report 2003. This report was the latest publication available at the time of this study. Twenty four formal letters were sent to the heads of government agencies to invite them to participate in the study. In return, the researcher received eleven replies of which five agencies declined the request. Follow up phone calls were made to the remaining government agencies that did not send a reply. However, only seven of them gave feedback to these follow up calls and the reason for cannot participating in the study. There were no responses from other government agencies. There were no responses from other government agencies. Among the reasons for not participating: officials were too busy, confidentiality of information and responsible officials were not available. In total, six representatives of auditees were interviewed. These consisted of one auditor, three accountants, and two managers all of whom directly interacted with auditors and used the performance audit reports. Representatives represented University of Malaya Medical Centre (UMMC), South Kelantan Development Board (KESEDAR), Rubber Industry Smallholders Development Authority (RISDA), Small and Medium Industries Development Corporation (SMIDEC) and Malaysian Agricultural Research and Development Institute (MARDI) and Universiti Teknologi MARA (UiTM).

5.5.4. Other users

Eight participants were interviewed in this group consisting of two freelance journalists, two academicians and four politicians (members of parliament). With regards to freelance journalists, they were chosen only after a formal request to interview financial or political journalists from the four major press companies in Malaysia were turned down. One

journalist had 20 years of experience and used to work for one of the major press companies. The other journalist had worked as a freelance journalist for 4 years and was a lecturer at a local university. The two academicians are from local public universities and they were selected because of their expertise in public sector accounting. The politicians were selected randomly from the list of members of parliament in the State of Selangor, where the researcher was based during data collection. Three politicians are from the ruling government party while one was from the opposition party.

5.6. Data Collection

Power (2003) argued that conducting fieldwork in auditing and analysing data is a difficult process. According to Power, many previous field studies were actually ‘research by stealth’ (p.380) and were conducted on ‘the margins of more orthodox work’ (*ibid.*) in order to legitimate the research. For example, he pointed out that many of the studies involved loss of control, generalisability and were by-products of other projects, ‘a fact which reflects the ongoing politics of legitimate research, problems of access and of presentation’ (p.390).

With this view in mind, for this study, as recommended by King (1994), a list of prospective participants was drawn up and an introductory letter was sent to each of them explaining the purpose of the study. After approval was given, the researcher subsequently phoned each of the participants to arrange an interview appointment and clarify any doubts regarding the interview. In carrying out this research and in communication with the participants, the researcher discussed the study openly and did not disguise the research

topic or link it to research on any other topic. The participants accepted the need for research in this area, even though it could be perceived as threatening for the auditors.

Prior to starting each interview, the participants were informed about the reason they were selected and about the research objectives. They also had the opportunity to ask any question before the recording began. The researcher also made clear to the participants that at any time during the interview they could ask questions in order to clarify a particular word or idea. They were also assured of the confidentiality of the study. Because of the sensitivity of some of the interview questions, it was emphasised that no other individual would have access to the tapes and that the anonymity of participants would be fully respected. The participants were given an option to answer the questions in Malay or English. The aim was to encourage the participants to speak freely in expressing ideas or views. In total, six participants chose to answer in English and the rest in Malay.

For the comfort of participants, the interview session started with 'factual and descriptive questions' (King, 1994, p.21) such as 'can you describe your job?' before moving on into specific issues. This was to allow the participants to become familiar with the interview situation and to develop trust in the researcher. This in turn could encourage the participants to respond to sensitive questions such as 'should the auditors be responsible for the fraud detection exercise?' A relationship of trust was established by common professional ground and the assurance of confidentiality (Beattie and Fearnley, 1998). Trust is particularly important to research about the perceptions of auditors and users as they were reluctant to express sensitive information. All participants except two auditors gave permission to tape the interview and no participants asked for the tape to be turned off

at any stage. In addition to tape recording, the researcher also used the note taking approach. As Decrop (1999) stated:

‘These notes are especially useful as they shed additional light on textual content or indicate specific questions that do not directly appear in the interview transcripts. Things to be observed are not limited to verbal activities. Non verbal behaviour, communicational aspects (audience reaction), and global elements (group actions, body gestures, combine verbal and non verbal, etc) often give precious clues if not direct insight’ (p. 159).

A note taking approach was used to record the main points from the conversations with the two auditors who did not give permission to record the interviews. The interviews ranged in duration from forty-five minutes to one and half-hours. Throughout the interviews, the researcher found no evidence of the questions being perceived as overly confrontational in any way, and interviewees seemed relaxed and willing to answer questions honestly.

5.6.1. Pilot Study

As argued by Berg (1995), the pilot testing of interviews helps to detect poorly framed questions and whether the responses elicited will be obtained. Teijlingen and Hundley (2001) concur with this line of thought and add that a pilot study avoids the researcher from collecting a lot of useless information. Additionally, the pilot study enabled a researcher to be aware of the demands of the interview process such as time, energy and potential problems.

A pilot testing of interviews was undertaken to get feedback on the appropriateness of questions and to ensure clarity of language and purpose. The interviews were pilot tested with two participants from two groups namely auditors (senior auditor) and PAC members

(Member of Parliament) each potentially providing views from the perspective of auditors and users. The interviews were taped recorded and the participants were asked their views at the end of the interview regarding clarity and wording of questions. Subsequent to the pilot study, the questions were revised and simpler words were used in some cases. Any repetitive question was deleted and inappropriate words were replaced. One question was found inappropriate as it was judged embarrassing for participants and therefore it was omitted from the interview guide.

5.7. Analysing the Data

Analysing the data in qualitative research is another important aspect to consider. This is because the quality of qualitative research not only depends on the methods of data collection, but also on the result of systematic and appropriate techniques in analysing the data. According to Lillis (1999), 'the credibility and veracity of work relies on the attention to the rigorous, complete and impartial analysis of the available data' (p.81). Hammersley and Atkinson (1995) suggest that making sense of qualitative data is a challenging process. Vast amount of data (Chenail, 1995), labour intensive (Rooy, 1998), complex and time-consuming analytical procedures (Dembrowski and Hanmer-Lloyd, 1995) are among the factors that can affect the analysing process.

For the purpose of this study, the analysis of data followed the grounded theory approach of Strauss and Corbin (1990, p.24). Grounded theory is 'an inductive form of qualitative research in which novel explanations and understandings of phenomena are developed by close examination of data' (Gibbs, p.234). This approach has been used in this study through a comparative method in which the researcher constantly gathered data, sorting it

to categories and comparing new data with merging categories. By constantly comparing each category with other category, further similarities were discovered and formed broader categories or themes. Glaser and Strauss (1967) described this method of continually comparing categories with each other as the 'constant comparative method' (p.115).

The analysis of interviews was conducted in two steps. The first step involved fully transcribing all the tapes of the interviews and saving each of the transcripts in separate 'Document Templates' in Microsoft Office. The researcher translated the Malay interview transcripts into English. For ensuring consistency of data, the translated English transcripts were given to a colleague for translating back into Malay. Confirmation of the consistency of the data was confirmed when the transcripts translated by a colleague showed a similar meaning. These transcripts were then sent to the participants for their comments and approval. The second step involved identifying, coding and categorising the data to get a general pattern of the participants views on the six audit concepts discussed in chapter three. This involved importing the 'Document Template' containing the raw data into the software qualitative analysis package called 'NVivo'. The researcher used this software for the following reasons: Nvivo is designed specifically for qualitative data analysis, applying the concept of grounded theory (Walsh, p.254) and its suitability for 'smaller research project' (*ibid.*). More importantly, because this software can make the analysis 'process more robust' (Gibbs, 2002, p.237).

Basically, NVivo was used for organising, searching and retrieving data. In analysing the data, it was first coded at 'free nodes' (Gibbs, 2002, p. 31) for the purpose of classifying data according to a common meaning, idea or concept. The researcher thoroughly read each of the sentences and consideration was given to the appropriateness of the nodes for each sentence. After that, nodes were refined, which was a straightforward process using

Nvivo as any sentence already nodes were easily adjusted. The interrelated nodes were examined to generate categories. The free nodes that appeared to express a more general theme were organised by a 'tree nodes' (Gibbs, 2002, p.31) which displayed a hierarchy to show their relationship. This process proceeds with the refinement of the relationship among the tree nodes. As the analysis proceeded, some nodes were removed, as they were redundant. The nodes were altered and reorganised as many times as necessary until the themes were consolidated. The final data layout was a combination of paraphrases, sentences and direct quotations from participants.

Another important aspect of analysing data is drawing and verifying conclusions (Miles and Huberman, 1984; 1994) or bringing out meaning from data. According to Miles and Huberman (1994, p. 44), an approach called 'pattern analysis' can be used to verify conclusions. The researcher determines what things mean by attempting to identify 'regularities, patterns, explanations, possible configurations, causal flows, and propositions' (*ibid.*, p. 11). Adding evidence to confirm a pattern and being open to any evidence that disconfirms it, is important in forming conclusions as it helps to protect against presenting unreliable evidence (Miles, 1979).

In presenting the findings, sentences that appeared to represent a particular theme were used to present the 'thick description' (Goldman-Segall, 1989) in the findings section. According to Goldman-Segall (1989), 'thick descriptions are descriptions which are layered and textured enough to draw conclusions and uncover the intentions of a given act, event, or process' (p. 118). Patton (1990) suggested that 'sufficient description and quotations should be included to allow the reader to enter into the situation and thoughts of the people represented' (p. 429-430). Additionally, a summary of key findings was

prepared in the form of tables (see Appendix 2) to ensure a rigorous, complete and impartial analysis of the findings (Lillis, 1999, p.81). As noted by Silverman (2000), tabulations present the reader with an opportunity ‘to gain a sense of the flavor of the data as a whole’ (p.185).

5.8. Limitations of the Study

Although qualitative research provides a number of benefits in terms of collecting and analysing data, this type of research is also subject to several limitations such as issues of validity, reliability, generalisability and objectivity of data. A common criticism directed at so called qualitative investigation is that it fails to adhere to canons of validity and reliability (LeCompte and Goetz, 1982). Other researchers such as Morgan and Drury (2003) noted that criticism of qualitative research is on generalisability as its ‘lack of applicability to situations outside of the setting’ in which studies have been conducted. Cannell and Kahn (1953) point out that the involvement of individuals in the data he or she is reporting would be likely to result in bias and the inability of the participants to provide certain information or memory bias. Since this study adopted a qualitative research method, it also therefore subject to these limitations.

In addressing these limitations, Lincoln and Guba (1985) proposed one alternative set of measures that correspond to those typically employed to judge quantitative work (see Table 5.2). According to these researchers, the terms such as internal validity, external validity, reliability and objectivity are parallel to credibility, transferability, dependability and confirmability respectively in qualitative research.

Table 5-2 Comparison of measures for judging the quality of quantitative and qualitative research

Quantitative Terms	Qualitative Terms
Internal Validity	Credibility
External Validity	Transferability
Reliability	Dependability
Objectivity	Confirmability

In quantitative research, internal validity is used to refer to the existence of cause and effect relationships. However, in qualitative research, instead of using the similar term, researchers use the term credibility. Qualitative researchers typically avoid the term "valid" in favor of alternatives such as "credible" (Lincoln and Guba, 1985). Credibility as defined by Maxwell (1996) is the degree of correctness of a description, conclusion, explanation, or interpretation. In order to ensure the credibility of this research, triangulation is employed. As noted by Creswell and Miller (2000), triangulation is ‘a validity procedure where researcher search for convergence among multiple and different sources of information to form themes and categories in a study’.

In quantitative research, external validity addresses the issue of generalisation whether the findings of the study are applicable to other situations. On the other hand, in qualitative research, the term ‘transferability’ was coined to equate to external validity and generalisability (Creswell, 1994). In this study, a method called thick or ‘rich’ description was applied as a way for creating transferability. Thick description aims at keeping the meanings and experience developed during fieldwork. Rich descriptions enable readers to

make decisions about the applicability of the findings to other settings or similar contexts (Creswell and Miller, 2000).

Finding a solution to dependability is another issue of concern that needs to be addressed. Dependability is about whether the process of the study is consistent and valid over other research methods. In this study, no specific technique was used. However, this does not mean that the findings are not reliable. As Lincoln and Guba (1985) stated: ‘since there can be no validity without reliability, a demonstration of the former (validity) is sufficient to establish the latter (reliability)’. Patton (2002) agreed with the statement by stating that reliability is a consequence of the validity in a study.

No single research method can be truly objective, it is important to document all the steps taken to increase objectivity as far as possible and to be constantly alert for subjectivity at the data collection and analysis stages (Patton, 1990). Based on this recommendation, two steps were undertaken to increase confirmability and limit the bias of the researcher in this study. Firstly, the interview guide was used to ensure consistent and complete coverage of all the themes in each interview. Secondly, as well as taping the interviews, notes were also taken during the interview to keep a record of important points that needed clarification or that appeared to conflict with other points.

5.9. Summary

In summary, this chapter discussed various important issues concerning research paradigms, methodologies and instruments relating to this study. The researcher described and explained the use of the constructivism/interpretivism paradigm and employed the qualitative research methods, which involved the use of interviews and document analysis.

The chapter also explored the issues relating to data collection and analysis. The issues relating to interview techniques, use of secondary data and analysis techniques were discussed thoroughly. The chapter ended with a discussion on the inherent limitations in employing qualitative research methods and its solutions that directly related to this study.

The next two chapters present and discuss the results obtained from the interviews and an analysis of the performance audit reports.

CHAPTER 6

INTERVIEW ANALYSIS

6.1. Introduction

This chapter is the first of the two chapters reporting the research findings. It presents the findings from interviews conducted with auditors and also the users of the performance audit reports. The following chapter, on the other hand, reports the findings from the analysis of the performance audit reports produced by the National Audit Department (NAD). A thorough discussion on the findings from the two chapters will follow. As mentioned in Chapter 1, the purpose of interviews is to explore the perceptions of the auditors and the users towards issues of auditor independence, auditor competence, auditor ethics, audit scope, audit reporting and auditing standards. The findings from interviews enable the researcher to identify the causes and components of the gap. The following paragraphs briefly highlight the profiles of participants and data analysis process for interviews.

All the interviews were conducted in Malaysia by the researcher. Participants were split into four groups: auditors (14 auditors), PAC members (8 members), auditees (6 people) and ‘other users’ consisting of press (2 journalists), universities (2 academics) and politicians (4 Members of Parliament). Table 6-1 shows the profile of participants. Detailed interviews were conducted with auditors working at three levels: management (three auditors), senior (six auditors) and junior (five auditors). These auditors were drawn from three main sections: Federal Government Audit Sector, State Government Audit

Sector and Statutory Body Audit Sector. Their positions were various including Directors, Deputy Directors, Head of Audit Team Auditors and Junior Auditors.

Table 6-1 Profile of participants

Group	Category/Position	No. of Participant	Total
Auditor	Management	3	14
	Senior	6	
	Junior	5	
PAC Members	Government Party	6	8
	Opposition Party	2	
Auditees	Auditor	1	6
	Accountant	3	
	Manager	2	
Other Users	Journalist	2	8
	Academic	2	
	Politician	4	

The interviews with the PAC members were conducted with eight out of fourteen members in which two were from the opposition parties and another six representing the government party. Six members were unavailable or unwilling to participate.

The interviews with auditees were conducted from the six government agencies audited by the NAD from 2002 to 2003. One auditor, three accountants and two managers, all of whom have direct interaction with auditors and have used performance audit reports, represented these agencies.

In the 'other user' group, interviews were held with participants from various positions and backgrounds including journalists, academics and politicians. The journalists interviewed were working independently. The academics, from two well-established public universities in Malaysia (one from Universiti Kebangsaan Malaysia and one from Universiti Utara

Malaysia), were selected because of their knowledge in public sector auditing in the country. The politicians interviewed were Members of Parliament; three from the leading government party and one from the opposition party.

As mentioned in the previous chapter, the interviews were conducted in both Malay and English depending on the preference of participants. The researcher did the transcribing and translation of transcripts. To ensure the consistency and reliability of data, a colleague reviewed the translated transcripts before being sent to participants for comments and approval. In the data analysis process, the researcher used the qualitative analysis software, NVivo, to facilitate the analysis. Raw data were transferred into Nvivo and manually coded by the researcher. At first, free node (open coding) was used to identify categories of data and major themes. When all data were summarised, the researcher searched for bigger common categories into which some of the summaries might fit. As the NVivo organised data by node, each node was constantly compared to all other nodes to identify similarities, differences, and general patterns. Although, all the categories and themes emerged from the data have as far as possible been labelled in NVivo, the words used by participants are maintained.

In reporting the findings, the researcher separates the description from the interpretation as recommended by Patton (1990) in ensuring the reliability of data. In relation to this, the researcher only lists the responses from the participants without trying to interpret what the result mean. Furthermore, quotes from participants have been used to highlight the intensity, frequency and importance of responses. The expression of a single view has been considered to be important if it is linked to a concern expressed in the literature or an

attitude repeated by another participant. The following paragraph describes the organisation for this chapter.

The writing of this chapter is organised into nine main sections as follows. Section 6.2 highlights participants' knowledge of performance audit. Section 6.3 presents the findings related to audit scope. Section 6.4 presents the findings on auditor independence. Findings on auditor competence are highlighted in section 6.5. Section 6.6 presents the findings related to audit reporting. Section 6.7 presents the findings related to audit standards. Other findings discovered in this study are presented in Section 6.8. Finally, Section 6.9 provides the summary for this chapter.

6.2. Participant's General Knowledge and Attitudes towards Performance Audit

This section presents the findings pertaining to the knowledge of participants and their attitudes towards the performance audit. Detailed findings relating to the participants' knowledge of the objectives of performance audit and whether the objectives were achieved are provided in the following section.

6.2.1. Objective of Performance Audit

In chapter four (section 4.5), it was suggested performance audit was needed for three reasons. These were ensuring the accountability of executive, improving the performance of government agencies and overcoming the limitations of financial audit. In Malaysia, these objectives are stated in the performance audit guidelines, except for the last objective. In relation to this, the first section of the interview schedule was designed to explore the participants' knowledge of the objectives of performance audit. The responses from

auditors show that they are aware of the objectives of performance audit. A majority of them stated that the objectives are to improve the auditee's internal controls and system; and improve public accountability.

“The objective is to identify the weaknesses and strengths of the project implemented by the government department. We are here to help management to improve the efficiency and effectiveness, in terms of their operational controls and systems. So what we do is expressing our opinions... and provides recommendations for them to actualise.” (Auditor 8)

“Actually, the objective is two-folds. First objective is to identify and resolve the problems by analysing and assessing the economy, efficiency and effectiveness of the department's operations. Second, to ensure the money allocated is consumed in line with parliament intentions...not only according to its purposes, but more important, being spent wisely. This second objective is actually related to accountability aspect of the agency.” (Auditor 12)

Nevertheless, a few auditors (*one senior and two juniors*), provided the *definition* of performance audit instead of explaining the *objective* of performance audit. As an example, one auditor stated the objective of performance audit is “to provide the assessment of whether the government agency's programme has achieved economy, efficiency and effectiveness in its implementation.” (Auditor 4)

The responses from the PAC members also demonstrated that many of them were aware of the objectives of performance audit. Similar to auditors, the majority stated that improving accountability and the agency's performance as the objectives of performance audit.

“The objective of performance audit is to study the performance of government departments... to ensure the money we as a member of parliament voted for. Auditing is also needed to make sure the money spent wisely, prudently with a view it is public fund and therefore any misspend is wrong in the eyes as political philosophy and according to the principal of financial accounting. So, at the end it wants to make sure the officer responsible for their actions” (PAC 1)

A few stated that their awareness was because of direct communication with the Auditor General during the PAC meetings. According to these PAC members, this type of audit is the focus in the PAC meetings due to its nature, which placed greater emphasis on the efficiency and effectiveness of government agency's programme. Interestingly, two PAC members were unable to provide an answer on the objective of performance audit. They stated that they are new members to the PAC²⁴. Further checks by the researcher showed that they are from management and forestry backgrounds.

On the other hand, the responses from the auditees and users from 'other users' group were varied, ranging from detecting irregularities to validating the accounts to include the definition of performance audit. However, all the auditees either directly or indirectly stated that improving the audited agency's operations as the objective of performance audit. The following excerpts demonstrate these points:

“To see if there is any mismanagement or abuse of power by the officer.” (Journalist 2)

“The objective is to ensure the government departments follow the procedures when implementing the projects.” (Politician 3)

“For example, in our case, auditors chose one programme, which was about giving loan to the small and medium enterprises. Firstly, auditors want to determine whether the programme implemented by the agency is operating as planned. Secondly, auditors want to assess whether we have reached the target. Third, they want to evaluate the procedures whether they can be improved or not.” (Auditee 3)

The findings show that there was confusion surrounding the issue of objectives of performance audit. Auditors and the PAC members were generally aware of the objectives of performance audit. There is not an obvious gap between these two groups. On the other hand, there is a slight difference in the auditees' level of awareness of the objectives. All

²⁴ These two PAC members became members after the general election in 2004. This is their first term in the PAC and have been in the committee for 10 months.

of them only recognised improving the performance of the government agency as the objective. The objective of performance audit for the ‘other users’ group was not as clear as for the auditors and PAC members group. In sum, a knowledge gap as to the objectives of performance audit exists between auditors with auditees, and also ‘other users’.

6.2.2. Performance Audit Conducted by Auditors Met the Objective

Participants were subsequently asked whether they believe the performance audit conducted by auditors met the objective. All the auditors considered the performance audit they carried out met the two objectives outlined in the Performance Audit Guidelines. Their beliefs are illustrated in the following extracts:

“We are able to identify weaknesses in the agency, for example in the case of the Agricultural Bank. This bank fails to monitor properly the programme due to lack of staffing. Based on the findings, we achieved our objective. I can see the report produced gave some impact on the agency.” (Auditor 3)

“We do it to help them in the project. For example, we did the project on the Fire and Rescue Department. We found that the staffs are very minimum compared to what exactly they should have. When we gave the report, the Public Service Department understood and they got bigger fund and staff the following year.” (Auditor 1)

One auditor explained that in some cases they are unable to achieve the objective of conducting a performance audit due to the failure of management to provide the documents requested.

“Got a few cases we did not achieve, just below the target. Usually, performance audit involved three years of activities. For financial part, there is a year where we got problem. We could not get the information needed. Auditee does not know where they keep the files.” (Auditor 2)

As with the auditors, many users indicated that the performance audit has met its' objectives. The view is illustrated in the following comments:

“I would say the audits met the objective. From the report, I can see that the Auditor General came out with many issues on the projects. The Auditor General highlights the budget involves whether overspending, following the procedures or not and so on.” (PAC 5)

“Like in our case, they report the progress of the project from the planning stage. They report the problems that we faced like staff shortage and not enough funding. They also comment that we are failing to adhere to the procedures. I think they achieved their objective.” (Auditee 5)

“They have done a good job. They highlighted the problems in every stage of the project. From the audits, I know that many of these problems were due to poor monitoring mechanisms by the department. If the department can follow the advice and implement the recommendations by the Auditor General, the result would be much better.” (Politician 3)

However, a few users claimed that some of the performance audits conducted failed to meet the objective. For example, one journalist believes that performance audits carried out did not meet the objective because of auditors' failure to discover the irregularities and mismanagement in the audited government agencies. However, this belief is understandable as the journalist previously thought that the objective of performance audit is to detect irregularities of auditees.

One PAC member from the opposition parties regarded the objectives of performance audit have not been met due to the failure of auditors to focus on the efficiency and effectiveness of the particular programmes.

“Auditors should focus more attention on assessing the output of the project... should not just to make sure that the figures are correct or not... or the procedures appropriate or not.” (PAC 1)

Another PAC member viewed the failure of auditors to express true view on certain issues as a reason for not meeting the objective. As demonstrated in the following comment:

“The intended objectives of performance audit are not always met. One thing people must realise is that if something happens to the project is not correct but if it is five or six years old how do you pursue. Top of that they must do enough to say this is wrong.” (PAC 3)

This PAC member was explaining his concern about the timeliness of audit reporting and the ability of auditors to express opinions based on the facts of audit findings. The long timing gap for reporting the findings after the end of audit process is viewed as inappropriate for effective corrective measures or remedial actions. Similarly, the failures of auditors to express clear and firm opinions on certain issues affect the PAC members in identifying the accountable officer. This is specially the case of poor performance.

The above findings show that there is some disagreement of perceptions among auditors and users as to whether performance audit conducted by auditors met the stated objectives. A few users perceived that the failure to meet the objectives is due to inadequate performance of auditors such as failure to focus on the output of the programmes and to express robust opinions on certain issues. Auditor’s performance is perceived to fall short of their expectations.

6.3. Audit Scope

This section presents details findings pertaining to audit scope. Specifically, it presents the findings on the extent of examination of economy, efficiency and effectiveness of the programmes and perceptions of participants on extending the audit mandate to question the

merits of policy. Perceptions of participants as to the responsibility of auditors in fraud detection and reporting exercises were also highlighted.

6.3.1. The Extent of Examination of Economy, Efficiency and Effectiveness (3Es) of the Programmes

A discussion in chapter 4 demonstrated that the performance audit mandate requires auditors to cover the economy, efficiency and effectiveness of the programme. In the examination of effectiveness, auditors are authorised to express an opinion as to whether and to what extent the programme's objectives have been achieved. Additionally, auditors also are allowed to examine alternative strategies in achieving the same programme objectives. Nevertheless, the audit mandate does not permit auditors to question the merits of policy. In the case of the examination of the merits of policy, auditors are required to examine whether the policy objectives and strategies stated have sufficient merit to achieve the outcome.

All the participants were asked about the extent of examination of economy, efficiency and effectiveness of the programmes. All the auditors claimed that the focus of examination was on 3Es every time they conduct the audit.

“We look into 3Es that are economy, efficiency and effectiveness. The purpose is to determine whatever activities or programmes implemented meet these 3Es. As an example, in the case of construction of a bridge, we want to know resources given whether money, human resources or materials has been spent and used accordingly and; the bridge has been built.” (Auditor 8)

“What we do is to check whether a project is done economically, efficiently and effectively. These elements are that we look into and the instruction is to make sure the 3Es is complying with the performance audit.” (Auditor 1)

Many users especially PAC members and auditees stated that they were satisfied with the extent of the examinations by auditors on 3Es. They argue that auditors have appropriately addressed the 3Es in the audit reports. As highlighted in the following comment:

“Performance audit conducted by NAD is to know to what extent the activity planned by one agency achieved its objective [goal]. Like in our case, they audit the Land Development Programme. They assessed the performance of this programme. They looked at the planning, whether we have a good planning or not. See if we manage it efficiently. Then look at the outcome of the programme. To what extent this programme brings benefits to the settlers. At the end, they provided suggestions on certain areas to improve our operations”.
(Auditee 6)

However, a few PAC members argued that the present performance audit concentrated on economy and efficiency and thus fails to cover all aspects of 3Es. As stated by one PAC member:

“I noticed that auditors gave greater emphasis on the economy and efficiency. Effectiveness seems to be oversight. Anyway, one of the members has raised this issue in the PAC meetings before. This is one aspect that needs to be improved.” (PAC 5)

One academic validates the view:

“We looked at the audit report and checked on the audit objective section. We can see that most of the objectives mentioned the economy and efficiency. Where is the effectiveness? Performance audit is supposed to cover all the 3Es.” (Academic 1)

This academic then provides the following explanation for his remark.

“Performance audit requires auditors to use their professional judgement especially in the areas of effectiveness. The result of the project is usually a subjective matter. For example, in implementing the *Program Rakan Muda* (Youth Development Programme)...to see the result would take some time. Some people would view the result from the number of youth joining the programme. Some would see the result from the quality...the behaviour of these young people. Auditors try to avoid this kind of thing as there are no standard criteria to assist them.” (Academic 1)

Similarly, one auditee also stated that examining the effectiveness is a difficult process due to the subjectivity of output and lack of measurement criteria.

“There are certain areas where output cannot be measured in terms of quantity but rather the subjective... quality. Therefore, different measures need to apply. For example, in the health sector, it is the quality of service, in the agriculture and livestock sector, it is more productive in terms of results that can be quantified.” (Auditee 4)

One auditee also claimed the objectives and approaches undertaken by NAD auditors are similar to the performance audit conducted by internal auditors except for a few minor differences such as in terms of audit scope, period of the programme and benchmarking approach. Interestingly, this auditee stated the performance audit conducted by NAD was not detailed compared to the performance audit conducted by the internal auditors.

“There is a little difference between us, for example, from audit scope. One thing is that they look from the stakeholders’ perspective, where we are limited to scope of organisation. We also emphasised in terms of value or priced of the materials used, effectiveness of the costs and mode of spending compared to other agency. Usually we look from the beginning until the present state of the project, so no limited period. We are more details and advanced than them.” (Auditee 2)

Additionally, auditors also stated that they do not question the merits of policy because it is outside the scope of audit mandate. However, they said that during the exercise they do comment on the policies under some circumstances such as the policy objective is inappropriate or can become a constraint to the department. For example, one auditor commented:

“We only allow questioning on the effectiveness of the activity, not on the merits of policy in the first place. But, to some extent, we do comment on the policy if we think there is a defect to the policy. Like in one report, we stated that the construction of staff quarters should not take place as there is no justification for its construction.” (Auditor 1)

Another auditor expressed:

“Questioning the merits of policy is not part of our audit. It is not included in audit mandate. But, the management says we can give our opinion where appropriate. For example, we used to comment on one programme introduced by the Ministry of Health, which is giving free condoms and syringes to drug addicts. In the report, we requested they reconsider the programme as it involves huge sums of money, is not cost effective and is burdening the ministry.” (Auditor 3)

In contrast, one auditee believed that auditors do not question the merits of policy objectives.

“If they say they are not questioning the merits of policy, then why in the report they challenge our initiative on giving out this type of loan to the SMEs”. (Auditee 3)

With respect to the extent of examination of 3Es, auditors believed that they have appropriately addressed the issue. In contrast, some of the users from all three groups are dissatisfied with the auditor’s present performance. They perceived that auditors are concentrated on economy and efficiency, and ignore effectiveness aspect of audit. To some extent, one user believed that auditors have crossed the boundary by questioning the merits of policy objectives. Thus, a divergence of views between auditors and users exists on this issue. These issues are examined in Chapter 7 to assess as to what extent users’ perceptions are valid.

6.3.2. Extending the Scope of Audit Mandate

Participants were subsequently asked whether the audit mandate should be extended to include the question of merits of policy. There were mixed answers among the four groups. None of the auditors expressed their disagreement on the issue. A majority of auditors stated that they were in the position to perform this new audit mandate if required by law. Nevertheless, they emphasised that the Audit Act needs to be amended first before

they can do the task. Nevertheless, one senior auditor expressed his concern over this new responsibility:

“..the problem is we are in a no win position. If we do not do anything about that, people complain that we are not doing our job and if we do something to help improve the situation, people complain that we are interfering with their business.” (Auditor 1)

All the PAC members were aware that the auditors are currently not in the position to question the policy. With regard to the possibility of extending the audit mandate to cover this issue, six PAC members expressed their disagreement. They believe that this subject is the responsibility of another government agency. As one PAC member stated:

“The audit on policy should be done separately by other organisations.” (PAC 2)

On the further question for the reason, the NAD should not question the merits of policy, he cautiously expressed:

“It is not a matter, of I could not trust the auditor or the auditor is not competent, but we already have the EPU (Economic Planning Unit) who is responsible for the approval of the policy.” (PAC 2)

Another PAC member believed that NAD should just focus on effectiveness of the programme.

“I do not agree that the auditor should question the policy. This responsibility is under the EPU, which is responsible to approve any project proposed. The Auditor General should focus on the impact of the study.” (PAC 6)

A few PAC members though disagreeing with the idea viewed that auditors should be free to express their views concerning the implementation of policy. This suggestion however, is within the audit mandate of auditors.

“No, I do not agree that auditors should be involved with the policy. But they should be aware of that policy. They could put forward their

feedback or comments on the policy in relation to the implementation of it.” (PAC 1)

However, one PAC member from the government party agrees with the extension of audit mandate.

“Auditors add value to the user by expressing views on the policy made by government agencies. They can give another perspective about the choice of policies that were made and what have been the consequences of those decisions.” (PAC 8)

Also in support of the idea was another PAC member, from the opposition party, who argues other agencies are not as practical since they are not independent as NAD.

“They should have the authority to question the merits of policy because we need the independent agency like the NAD.” (PAC 3)

A further difference on the issue can be seen in the responses of the participants from the ‘other users’ group consisting of academics, journalists and politicians. One politician argued that questioning the merits of policy would mean that indirectly, the auditor was questioning the policy implemented by the government. Thus, this politician disagreed with the suggestion. Another politician stated that questioning the merits of policy would not make any difference, as he expressed:

“I see no point for the Auditor General to question the merits of policy because the program is already implemented. Probably, it is too late for the department to make such arrangement.” (Politician 4)

However, one journalist stated that NAD is in a better position to question on the merits of policy compared to other agencies. This journalist thinks that it would be a good idea as the auditors have the necessary knowledge and experience in assessing the merits of policy. All the auditees shared a similar view with this journalist. Another important remark was made by an academic who stated that:

“If the auditor can question the merits of policy, then it would make the performance audit more relevant.” (Academic 2)

As to the extending the audit mandate to questioning the merits of policy, PAC members and politicians representing government parties are less in agreement with such extension. In contrast, all auditors and other users are supporting the idea. The findings indicated that there is a need for reviewing the audit mandate and standards.

6.3.3. Fraud Detection and Reporting Exercise

In this section, the result of the interviews concerning auditor’s responsibility over the fraud detection and reporting exercise will be presented. As highlighted in Chapter 3, auditors are not responsible to detect and report every fraud or any activity that is contrary to laws and regulations. However, auditors are responsible for being aware of activities that indicate the incidence of fraud. These remits are clearly stated in the NAD’s auditing standard.

In response to the question, auditors unanimously agreed that it is not their responsibility to detect any kind of fraud. They argued the responsibility falls under the auditee’s management. Furthermore, auditors acknowledged that detecting fraud is one of the areas, in which the public misunderstand the responsibility of auditors. These views are demonstrated below:

“Not many people are clear as to our role and management’s role relating to fraud. Many people believe that detecting fraud is the only the concern of auditors. This is incorrect. Our role is to evaluate the adequacy of the existing system of internal control by analysing and testing. In this case, if we suspect fraud, then we will report it. The management is responsible for detecting any suspected fraud.” (Auditor 9)

“We realise that the public expect us to dig up the fraud when we go for an audit. In performance audit, we are not focused directly on fraud. It is not our job to go for fraud. The public always think that the auditor is coming to look for other’s fault.” (Auditor 11)

“Now, there is nothing in the act which requires us to check whether it is fraud or those things.” (Auditor 1)

The claims by these auditors were validated by the two users interviewed who believed that fraud detection is the responsibility of auditors.

“This is in their course of work already.” (PAC 2)

“I thought this is their responsibility.”(Journalist 1)

Further responses from auditors also show that they are not following any specific procedure for detecting fraud, as a formal procedure is not available. Thus, the process depends entirely on the knowledge and experience of individual auditors or the information from an ‘insider’ relating to possible fraud. As remarked by two auditors:

“We do not have any procedure for detecting fraud. Actually, if it happens to be that internal controls are weak, than we would consider to look of further details to check any potential fraud. Sometimes, we get the information from other officers in the organisation. Those are the symptoms.” (Auditor 3)

“There is no formal procedure to detect fraud. What we have done so far was based on our observation and experience.” (Auditor 8)

On the issue of whether an auditor is responsible for reporting fraud, the auditors unanimously acknowledged that they are not under any obligation to report any kind of fraud to the authorised agencies.

“We only bring matters to the attention of the relevant authority, normally Anti Corruption Agency (ACA), if the fraud is significant. Usually we just inform the management if we come across any suspect fraud or irregularities.” (Auditor 2)

“It depends on the situation. If it is minor thing, then we just inform the management and ask them to take proactive measures to prevent

this from happening again. However, if the amount is substantial, we will highlight it in the report and possibly refer this case to the ACA.” (Auditor 10)

As for the detection of fraud, the auditors were generally of the opinion that it would become a main responsibility of auditors in the future as the NAD has initiated an effort to recognise fraud detection in the NAD auditing standard. The auditors also expressed optimism that the situation will improve as new guidelines and procedures on fraud have recently been drafted. The majority interviewed also did not decline to perform the task if required by the Act. One senior auditor remarked:

“...audit act must be amended to have that element. If parliament feels they require us to do it, then we have to do it. But in anticipation of this thing, we are working towards bringing the element of fraud checking in our course of work. That is what we are doing.” (Auditor 1)

However, two auditors disagreed with fraud detection becoming one of the main responsibilities of auditors. The main reason as argued by them is that the current responsibilities are adequate. Thus, to perform additional responsibilities would require additional time and staffing.

“In terms of necessity, it is necessary to cover all the fraud. However, to become part of an auditor’s responsibility, I do not think so. It is not an easy task and this of course would be time consuming and costing more staff. The current task is adequate. We only have four months to do the audit.” (Auditor 3)

“Not necessary at the moment. The responsibility should be given to other agencies. Our focus is to improve the weaknesses of an agency, not to find other people’s mistakes.” (Auditor 7)

On the other hand, a majority of the PAC members and users from the ‘other users’ group expressed their dissatisfaction with the level of auditors’ effort in detecting fraud. They felt that this was due to the lack of an audit mandate and an absence of formal procedures for detecting fraud.

“At the moment, no. There are so many things that have to be done by the Auditor General. As far as I am concern, they do not go for fraud. They only investigate it if during the audit, they discover or suspect something wrong or misappropriation exists. So, this is one aspect that needs to be improved. What happens if they do not discover it during the auditing? The procedures should be there to be followed by the auditors”. (PAC 6)

“...there are gaps over there. Many cases discovered lately show that the monitoring mechanisms are failed. The auditors should discover this before it happens.” (PAC 7)

One journalist also indicated his concern on the auditors’ level of performance in detecting fraud. He perceived that auditors do not take serious efforts to detect fraud.

“Auditors are not serious in detecting the fraud. They take this thing for granted. They have failed on many occasions.” (Journalist 1)

In contrast, all the auditees were satisfied with the current performance of auditors in detecting fraud. One auditee in defending the performance of auditors in this respect remarked:

“Fraud or errors do not occur every time. So, it is not reasonable to expect auditors to disclose or to find these things, every time they do the audit. The failures or weaknesses of the project may just be solely because of poor implementation process or monitoring mechanisms. Not because we [auditees] are not a responsible people.” (Auditee 4)

All the users generally, viewed fraud detection should become one of responsibilities of auditors. They argued that as professionals with relevant expertise and independence, they have a duty to protect the public interest. Additionally, the auditors’ expertise and independence were also the reasons to support their view. The following responses demonstrate the users did not object to the suggestion.

“They need to accept this responsibility. We [auditors] cannot simply follow the practice in the private sector. They are profit oriented; of course, they want to avoid any risk or liability. Protecting the public interest is the priority in the public sector.” (Academic 1)

“The level of detection needs to be upgraded...to protect public interest”. (PAC 1)

“They have the knowledge and expertise which is not everybody has. Further, no other agency that is more independent than NAD. These two criteria are important.” (Politician 2)

In another relevant issue, views differed among users with regard to fraud reporting exercise. The PAC members claimed that they were satisfied with the present practice because auditors adequately highlighted in the report or acknowledged them of the cases referred to the relevant agencies. The following comment summarised the PAC members’ views on the situation:

“They did a good job in terms of reporting [fraud]. They highlighted in the report about their findings. Based on what they said [during a PAC meeting], sometimes, they also refer to the case to the ACA.” (PAC 6)

Similar to fraud detection exercise, four auditees believed that auditors have adequately addressed the issue either by acknowledging the management or by reporting in the audit report. Two auditees keep reservation from answering the question, as they never experienced the situation.

However, a few users were sceptical that auditors are adequately performing this role. As illustrated in the following comment:

“As far as I am concerned, I have not come across any report on fraud. I am also not aware if there is a situation in which they refer the case to any agency. I am not sure whether it is because of a genuine reason [no fraud] or auditors’ failure to detect them. Maybe auditors don’t want to create an issue, so they settle it quietly and did not state in the audit report.” (Politician 3)

As shown above, there is a clear disagreement between auditors and users over the responsibility of auditors in relation to fraud detection. PAC members and ‘other users’ groups are vocal in expressing dissatisfaction over the present performance of auditors in

detecting fraud. They perceived that this was due to shortcoming in audit mandate and auditor's poor performance. However, auditors do not perform this responsibility, as it is not a part of statutory responsibility. On the other hand, the disagreement over the issue of fraud reporting exercise was less obvious. The extent of fraud reporting exercise, in case of auditors detecting fraud, is examined in Chapter 7 to determine the validity of users' perceptions.

6.4. Auditor Independence

This section presents detailed findings for perceptions of auditor independence. Participants were asked their opinions of auditor independence in general, as well as on issues such on the practice of providing non-audit services to auditees and influence of management, executive or other external parties on auditors.

6.4.1. Auditor Independence in General

As discussed in Chapter 3, auditor independence is one of the areas that are vulnerable to the audit expectations gap. In safeguarding independence, auditors need to ensure that they are independent in fact and in appearance. In the context of public sector, in addition to these principles, auditor independence also is guaranteed under the constitution.

All participants were asked about their perceptions toward auditor independence in general. In response to the question, as expected, the auditors perceived that they are very independent. Reasons cited for this perception included protections from the law, their professionalism and adherence to the performance audit guideline.

“Our independence is guaranteed under the constitution and audit act. So, nobody from outside has the power to interfere with our internal matters. We are free to decide on the project we want to audit, to report our findings and so on. We also have our internal code of conduct, which tell us what we can do and what we cannot do.” (Auditor 6)

“What I can say is that, we do our job professionally. What we find is that what we report.” (Auditor 1)

“In the guideline, it clearly states auditors and audit institutions that undertake the audit must not only be independent but also must be seen to be independent. Various examples of the situation that can affect our independence are given here. This shows how serious we are in dealing with this issue...before and during an audit, we will make sure that everything is done according to the guideline.” (Auditor 8)

Six PAC members from the government party and all the auditees expressed a similar opinion to the auditors. Integrity of auditors, existence of laws and constitution to protect auditors and absence of complaints from the Auditor General were mentioned as the reasons for their belief. This is illustrated in the following comments:

“Theoretically, the Auditor General should be independent and free. So that it can be effective. My view of the current practice is that the Auditor General takes a very serious view on his post and is independent.” (PAC 8)

“No doubt about that. So far, we [PAC] do not hear any complaints from the Auditor General.” (PAC 6)

“I think they are quite independent. There are laws to protect them.” (Auditee 2)

“Yes. They are professional...have integrity...and do not do anything that can damage their professionalism.” (Auditee 5)

However, other users perceived that auditors are only independent to a certain extent depending on the areas on investigation. Job security was identified as a reason for auditors unable to withstand pressures from such individuals. As one academic explained:

“If I put it on a scale, I would give them 7 out of 10. Not at all times will auditors be independent. They are independent, but it depends on the project they are auditing. There would be situations where they try

not to report the true situations. Tell me which department is totally free...even the judiciary is not independent today. There will be pressure from the people outside there. Auditors also want to live...they have a family and have a good job. It is about survival". (Academic 1)

Another academic perceived that auditors at the lower level are more independent than higher level of management due to the latter being involved in deciding what to be included in the audit report.

"I do not worry about the auditors at the lower level. My concern is those people at the management level who will decide on what is to be included in the report." (Academic 2)"

One PAC member, who also perceived that auditors are not independent all the time, argued that the composition of members of parliament could influence the Auditor General's independence. This PAC member thought that the Auditor General would be more cautious before deciding next course of actions to avoid the controversy.

"I hope they report the true situation. However, here, unlike in the UK, where the opposition party make up 40%-60%...the Auditor General would become more freer to do things. But, here, 91% of members of parliament represent the government. So, the Auditor General would take that into consideration. If you are the Auditor General, you see the disparity is so big; you would not want to step on the wrong side. If balanced, the other side can rule so they feel a bit more independent." (PAC 3)

Some users from 'other users' group believed that the integrity of auditors and the practice of hiring an ex-civil servant as the Auditor General could impair auditor independence.

"This is what I always believe. The person who is holding the post of the Auditor General must be somebody who has the courage to say so and do so. This person must have high integrity. If he (she) thinks that they are right, they have to stick to their decision. He (she) should not be afraid of criticism." (Academic 1)

"Hiring the Auditor General from the retired civil servants pool is one aspect that needs to be reconsidered. If we look at the background of the past Auditor General, many of them were high-ranking officers at the ministries. I cannot see how they still can be seen as independent here. You [the Auditor General] have worked at this and that ministry...you make a close contact with them. Then, you go to audit

their project. Maybe these people would not say anything, but do you think you want be harsh on them?" (Journalist 1)

Overall, views differed between auditors and 'other users' group with regard to auditor independence. Auditors, PAC members from government parties and auditees shared a similar perception and perceived that auditors are independent. These groups highlighted that a high level of integrity, presence of laws to protect and give powers to auditors and auditors' professionalism as the underlying basis for their beliefs. In contrast a few users especially from 'other users' group think that auditors do not appear to be independent.

6.4.2. Provisions of Management Advisory Services (MAS)

Chapter 3 identified provisions of non-audit services such as providing management advisory services as one of the factors that can impair auditor independence. In Malaysia, the NAD auditing standards allows auditors to provide professional advisory services on the conditions auditors do not get involve with decision-making and its implementation. A question was included in the interview guide with the aim of gaining the participants' perceptions towards this practice. With regard to this issue, auditors did not perceive that this role would impair their independence. They argue, they are only in the position of advising the agencies and are not responsible for decision-making.

"There were many occasions where agencies consult us or ask for advice before or during the implementation of projects because they are not sure of certain issues. In this case, we will give our recommendations. It is up to them whether they want to follow or not. We do not say that they must do this or do that." (Auditor 12)

"Let say, the auditee came to us and asks for help in developing the rules or procedures of one project...we will help them, but in the context of advising them only. We might say this procedure is against the Treasury guidelines... or accounting principles or whatever. So, we ask them to reconsider other options. In some cases, we might suggest a few options....but at the end it is up to the auditee to decide.

...say we get involved with the development [of procedures], we will make sure that it is not the same people to evaluate the effectiveness of these procedures.” (Auditor 2)

A majority of users perceived that offering MAS to auditees would impair auditor independence due the possibility of auditors of auditing their own work and establishing a close relationship with auditees. However, they were quick to add that this provision is not an issue in the public sector as long as auditors are present just to offer help and providing advice or suggestion.

“You can give advice on what to do but should not get involved. You are there to see them to do it properly. Advice on what to do is reasonable.” (PAC 3)

“If they are offering help in terms of giving advice or suggestions to the problems that would be ok.” (Politician 2)

Another PAC member also perceived that MAS is not a major issue as long as different auditors carry out the audit.

“I think no problem... as long as it is different auditors.” (PAC 4)

On the other hand, a few users especially auditees believed that the provision of MAS has no effect on auditor independence. This perception was based on the belief that the NAD has an extra capacity of staff and a clear line responsibility for every auditor. Thus, there are unlikely same auditors auditing their own works. Furthermore, NAD does not rely on audit fee, which is one of the factors that can influence auditor independence in the private sector.

“The line of responsibility in the public sector is quite clear compared to the private [sector]. They also do not depend on the fees. Plus, the possibility of the same personnel do their audit work is really low”. (Academic 1)

The findings of this section show that there is a divergence of opinions regarding auditor's practice of offering MAS to auditees. Auditors and auditees were of the opinions that it would not impair auditor independence because they believed auditors are not involved with decision-making. On the other hand, many users think otherwise.

6.4.3. Influence from Management, Executive or Other External Parties

Influence of management, executive or other external parties on auditors was recognised in Chapter 4 as another factor that can impair auditor independence. Participants were asked whether they perceive auditors are free from any influence from these parties. The majority of auditors interviewed thought that they were sufficiently free from external influence, as the decision made was based on the available facts and evidence. These comments illustrate this point:

“We do not take account any request from any party. For example, not to disclose any information in the audit reports...if the evidence shows that the department's project is not well managed, we say so...we do not hide anything.” (Auditor 10)

“Sometimes, it happens. Of course, there is information from outside but it does not influence our opinion. We depend on the evidence collected.” (Auditor 2)

A few auditors claimed that there were occasions where they received warning and memorandum from related parties instructing them not to disclose certain information in the audit report. The following excerpts demonstrate this situation:

“We used to receive letters from politicians and government officers instructing us what to do with the audit report.” (Auditor 12)

“Usually it happens. They ask us not to disclose such information. It all depends on our top management. Usually we did not disclose to the public reports like that.” (Auditor 7)

However, sometimes under some circumstances there are reasons not to disclose the problem such as national security interest and the possibility of manipulation of information by certain parties. This is illustrated in the following excerpts:

“The report goes up in different stages. Subsequently the report is cancelled. In my opinion, I felt very strongly about the issues raised, which is very important. Last time we were not told why it was dropped. Sometimes, the Auditor General is aware of the macro side. He is aware what will happen to the whole nation if the project is reported. It is not of political reason it is dropped.” (Auditor 1)

“There was a case where a government officer from the Election Commissions asked why the audit on voter registration and re-bordering of polling districts was not available in the report. This is subject to sensitivity, so we reported directly to the Prime Minister. Some parties will use the information for good things, but some parties may manipulate the information.” (Auditor 12)

There were mixed reactions from the users over this issue. All the PAC members from the government parties perceive that the auditors are free from influence from any party. A journalist and a politician from the ‘other users’ group also expressed similar views.

However, two PAC members from the opposition parties claimed that influence from outside parties is possible despite the guarantee of independence of the Auditor General under the Constitution and Audit Act.

“I do not think they have not enough laws but it depends on how delicate the people are. I know that independence of the Auditor General is guaranteed under the Audit Act and Act of Parliament. In addition, one must get the approval from the YDPA. But the problem is the Auditor General is recommended by the prime minister.” (PAC 3)

“...the Auditor General is still under government control. If they too aggressive, maybe they would be subject to action by the Prime Minister. For example in case of auditing the Finance Ministry, politicians involved²⁵. This is a sensitive issue.” (PAC 1)

²⁵ The Prime Minister is also a Minister for the Ministry of Finance and Ministry of Internal Affairs.

Similarly, four users from 'other users' group thought that the auditors do not really appear to be free from external influence. They perceived that social pressures such as the practice of giving awards to auditors and the personality or status of individuals leading the government agencies would indirectly influence the auditors. Their concerns are highlighted in the following extracts:

“You are hired by the prime minister and take orders from the ministers. Once you become the Auditor General, you get the ‘*Tan Sri*’, title. Do you think you want to be very hard on their account and performance? There are social pressures. Then, the department handles such big numbers of departments; both sides have much to hide.”
(Journalist 1)

“I believe that there is situation where the external parties put the pressure on auditors especially from the ministries and the statutory body headed by the important figure. Anyway, if they do not, do you think the Auditor General would report something bad on that particular ministry? Of course they would be careful on this.”
(Academic 1)

“In the environment where a lot of parties have interest on the department, it is hard to say that the auditors can really be independent.” (Politician 2)

None of the auditees believed that the auditors were subject to external influence. They claimed that based on the reports, the audit reports demonstrated the true situation of the activities or programmes implemented.

Results indicated that there was obvious divergence of perceptions among the participants. The auditor's group as well as auditees and the PAC members thought that there was no influence by management, executive or other external parties on auditor's independence. 'Other users' group and two of PAC members thought differently. These users have recognised social pressures and loopholes in the laws as factors affecting auditor independence.

6.4.4. Access to Information

Gathering sufficient evidence is crucial to support audit findings. In this respect, the ability of auditors to access the information is important. Without sufficient information and evidence, auditors would be unable to express objective opinions on the performance of the programme implemented by government agencies.

As to the issue of cooperation from management for access to information, which is important for the successful audit, the auditors were of the opinion that they have reasonable access to information. According to them, auditees give full co-operation to them. As the auditors commented:

“No problem, no restrictions even the classified information. We can call anybody to get the information.” (Auditor 7)

“We get full cooperation from departments. At the moment, no problem with that. Under the act, we can call other organisations to provide us the information. If we cannot gain access to the information, then we will write it in the audit report.” (Auditor 2)

A few auditors mentioned that although they received full cooperation from management, the common problem faced is that the information needed was commonly not available due to lost files. They claimed that because of this reason, they are unable to make any judgement of the programme.

“So far, we do not have any problems accessing information even confidential information. The problem is just that the agencies usually lose the files or do not know where they are.” (Auditor 1)

Most of the PAC members believed that the auditors do not face problems in obtaining the information from agencies audited. They argued that the auditors could use their power to call upon any individuals to provide the information they needed. A few of them also

suggested to the auditors to state the extent of access in cases where they faced obstacles in obtaining the information. The following extracts illustrate the ideas;

“As far as I am concern, they can assess all the information they want. The Auditor General never complains about this. So, I assume they do not have problems with any department.” (PAC 8)

“...they should and must. If they do not they must declare to the extent they can access.” (PAC 7)

“I think they are empowered under the audit act. Recently, they come out with criticisms on government departments and the ministries that do not follow procedures. For example, a few years ago, the Auditor General came out with a report highlighting the fact that the Ministry for Rural Development had misused funds for housing of the Housing for the Acute Poor and misspent RM30 million. The Auditor General during the last few years, I think has been doing a good job. I am happy with the development so far.” (PAC 1)

One PAC member from the opposition party, in contrast, believed that the auditors can access the information but only to a certain extent, as he remarked;

“I hope they have. They have the right to get info. However, in some extent, they would probably restrains from obtaining information in statutory bodies or ministries such as the Ministry of Finance since the Prime Minister is also head of many ministries. If he knows that the Prime Minister can be toppling out he probably does so. If the majority is overwhelming like the majority as it is now it is understandable, that maybe some auditors would not so dare.” (PAC 3)

All auditees believed that the auditors are accessible to all the information they needed. They would give full cooperation to the auditors as requested. If the information needed was not available, they would offer other alternative information to auditors to help auditors during the audit. The extracts below highlight the point:

“Yes, definitely. I think most agencies are transparent in providing information needed by the Auditor General. If they do not satisfy the information given, we will give them better images on the project, for example, bringing them to the site project.” (Auditee 1)

On this issue, other users share similar opinion with the auditors. They believed that auditors have the authority to access any document without resistance from the agencies.

“The auditors are authorised to gain entry to any document, contract, file and so on. I believe no department declined to give them access.” (Academic 1)

“The can access but the problem is most of the information not available or lost.” (Politician 1)

To summarise, auditors and users shared a similar perceptions as to the access of information by auditors. The authority of auditors to gain access to the records and documents is viewed as important and has some impact on the audit process. Nevertheless, the undetected records and documents is one of the problems that need to be resolved.

6.5. Auditor Ethics

Participants were asked whether auditors are acting on behalf of public interest or on a personal interest. As expected, all auditors stated that they are acting on public interest. However, a few of them also agreed that some auditors might be acting on personal interest. Auditors suggested that it is unreasonable for public to generalise the situation.

“We are here to safeguard public interest. This is my priority and others too. That is the reason for us to report to the parliament and not to the Prime Minister. Anyway, there is a lot of staff here. Of course, there might be some among us who have a personal agenda. Maybe just a few. It is unfair to generalise to all auditors.” (Auditor 3)

One auditor stated that honesty and religion play an important role in auditors' actions.

“Top of that, as a Muslim, I believed that I must be honest in everything I do. Allah is watching. I am afraid of Him.” (Auditor 12)

Another auditor expressed a similar view:

“I have been working as an auditor for 12 years. I have seen a lot of things going around in the [auditees] departments. Incomplete accounts, irresponsible officers, corruption, abuse of powers and those kinds of things. Frankly, I feel sad when I see these happen to public money. I always tell my subordinate, to be sincere in our job and do what we are asked to do.” (Auditor 5)

In addition, auditors also maintained that the adoption of auditors code of ethics by the NAD has guided them to act on public interest. They stated that this code is important for guiding them to determine what is right and what is wrong and to make them accountable for their action.

“Auditors are bound to comply with the code of conduct. We have a guideline on what we can do and what have to avoid. It is not just a statement. Everybody has access to it, even outside parties. They can use it to call us to account for our action.” (Auditor 9)

Similarly, all auditees, the PAC members from a ruling government party and a majority of users from ‘other users’ group, optimist that the auditors are acting in an ethical manner.

Examples of their views include the following:

“From my observation, I think they all are acting within their code of conducts...They maybe do more, but that what I see.” (PAC 4)

“I’ve known one person.... He is a senior auditor and the situation did sort of involve conflict... one top official from a ministry wanted certain things... I think what he did was he put the draft report in front of him and said, “You know, here’s the issue, here’s the pressure and at the end of the day this is what I think.” He gave you the information that his decision was based on...” (Auditee 3)

On the other hand, other users considered auditors are not acting in an ethical manner.

“You can have all those rules [code of conducts and standards], but there is no guarantee you can and will follows them.” (PAC 2)

“Some auditors may be doing their best but if the boss does not like it, what else they can do? It depends on the attitude of the officers...impossible for them to resign.” (Journalist 1).

In sum, auditors and the majority of users are in agreement as to the issue of whether the auditors are acting in the public interest or not. Auditor's honesty, integrity, and the presence of a code of ethics are the reasons for supporting their beliefs. The opposing views were existed between auditors and users, especially from 'other users' group and PAC members from opposition parties.

6.6. Auditor Competence

This section presents details findings for perceptions of auditor competence. Participants were asked their opinions of the auditor competence in general, qualification and skills of auditors, audit teams form different backgrounds, hiring the private audit firms to conduct the performance audit and; auditor's training and professional development programmes .

6.6.1. Qualification and Skills

As discussed in Chapter 4, the literature in the performance audit widely highlights the needs for adequacy in the qualification and skills of auditors which carrying out the audit. As the performance audit is significantly different from financial audit such as in terms of methods of examinations, availability of auditing standards and standards of measurement, auditors are expected to face difficulty in making judgements. In this respect, the relevant qualification and skills are important in ensuring the quality of investigations. In this section, participants were asked whether they were satisfied with the qualification and skills of auditors.

The auditors expressed satisfaction at their qualification and competence level. All auditors carrying out audits have at least a bachelor degree in relevant fields, as recognised in the

Audit Act. According to this group, the minimum of five years working experience in financial and compliance auditing is required before being permitted to conduct performance audits. As to the question of whether any additional skills are needed to carry out this audit, none of the auditors think so. However, they noted that obtaining a reasonable level of experience on the financial side is essential. This point is demonstrated in the following extracts:

“If you want to conduct a performance audit, you must have good knowledge of the financial side. New auditors will be sent to the financial side to pick up all financial work and then they will be transferred to the performance audit. Normally those experienced in auditing for 5-6 years.” (Auditor 1)

“We do not allow new auditors to do performance audit as they lack experience. Once they have acquired enough experience and exposure, then we let them do the performance audit.” (Auditor 10)

All but one of the PAC members were of the opinion that the auditors have adequate qualifications and skills. They argued that there are proper procedures for the appointment of auditors. Furthermore, they believed that auditors are subject to continuous monitoring of performance and attending proper training.

In contrast, one PAC member does not believe that the auditors have adequate qualifications.

“Some of them have adequate qualifications but I do not think all of them are qualified. They have to make sure that all auditors are qualified. I used to hear those with certificates can also be an auditor.” (PAC 3)

The auditees and all other users overall expressed their satisfaction with the current qualification of auditors. They believed that the auditors have the relevant qualification and meet the minimum standard required to become government auditors.

“I am sure that the Auditor General selected the best people to be in the office that meet the minimum requirements to become an auditor.”
(Politician 4)

“Generally, they are competent because they are well qualified.”
(Auditee 5)

However, there is disagreement among them when it comes to the skills and experiences of auditors. Some of them felt that the junior auditors are lacking skills and experience. The following excerpts illustrate this view:

“But the problem is those who came to this office were junior who are lacking in experience and did not well understand with the system.”
(Auditee 5)

“The auditors are well qualified. But they should improve their public relations. Then, it seems they are lacking knowledge about our organisations. Even the basic things they don’t know.” (Auditee 3)

Three participants provided the following reasons for an auditor’s lack of experience.

“I think they are lacking experience because they audit something which is outside their field.” (Auditee 4)

“Those who came here look so young...” (Auditee 1)

“They have a checklist on what to look at...many of them depend on this checklist.” (Politician 2)

One academic claimed that the auditors are lacking problem-solving skills which he argues result in ineffectiveness of audit recommendation.

“Many auditors especially the juniors are lacking skills, especially problem-solving skills. This skill is very important. For example, in construction, they check the work of others and then compare this with the existing standard, which may be set by other people. Because of this, they make the recommendations, which are lacking detail and often just recommend something related to the procedures.”
(Academic 1)

To conclude, this section shows that all the groups perceived that auditors have adequate qualifications. However, the disagreement was obvious when it came to the skills and

experience of auditors. Auditee and ‘other users’ groups believed that auditors are lacking skills and experiences, but not other groups.

6.6.2. Audit Team from Different Backgrounds

Performance audit is an information-based activity (INTOSAI, 2004) and covers wide areas such as management, legal framework and operational issues. In addition, it also covers various programmes in the field of health, engineering, information technology etc. As it is impossible to recruit and to expect auditors with all the knowledge and skills, audit teams from various backgrounds would be ideal solution for reaching optimal decision.

On the issue of hiring auditors from other disciplines other than accounting, not all auditors shared the same views. The majority of them support the idea of employing new auditors from other disciplines. They argued that the knowledge and views of these new auditors would lead to better output.

“In principle, I think it is a good idea. Whether we like it or not, we have to admit that we are unable to master every field especially involving technical areas such as engineering and medical... so we have a good blend of members with different knowledge and skills. The presence of these people definitely would help in our investigation.” (Auditor 1)

However, two auditors were against the idea of hiring auditors from other academic backgrounds, arguing this practice would result in overstaffing in the long-term. Thus, they believed that the present practice of seeking the assistance from other government agencies would be more practical.

“We can employ them but at present, we do not specialise in any type of audit. Everybody does different audits in a year. If we hire them to do the performance audit, then they do not have any work to do after

finishing the performance audit. So, using the external expertise is better.” (Auditor 4)

“...for the current practice; we seek help from other government agencies. For example, we have an engineer loaned from the Department of Work to advise us on issues relating to construction. We can also request the help from the Attorney General Office for matters relating to laws. We can continue with the practice.” (Auditor 12)

Although employing people from other backgrounds is possible, the present problem is that NAD does not recognise people from other backgrounds. The following quote illustrates the problem:

“...not necessarily have a degree in accounting can carry out the performance audit. I think everybody qualify for conducting performance audit – for example he/she can be from accounting, business, economics, geology background. But, the problem is the department does not recognise other degrees. Auditors must be from accounting or other relevant background.” (Auditor 2)

Similarly, all the PAC members were in favour of NAD employing people from different disciplines to conduct the performance audit. They support the idea by arguing that the performance audit not only examines the documents on the financial side but also on the technical aspect. The view is reflected in this response:

“Definitely, they are auditing a variety of activities involving different fields like constructions, medical and IT. There is a lot of information about budgets, laws, technology or so on.” (PAC 2)

All the auditees shared the same opinion with the PAC members and felt that this idea would contribute to relevant suggestions in the audit report. Other users also support the idea of having people from different backgrounds claiming that some projects would require individuals knowledgeable in fields other than accounting. One academic remarked:

“It requires people who master in the particular field to do assessment on the project about the organisation, process, system and fieldwork.

The Auditor General should consider using people from other disciplines, not only accounting.” (Academic 2)

This section shows that all the groups shared a similar perception with the idea of having audit team from different backgrounds. In addition, the participants agreed that the composition of audit team from various backgrounds has an impact on the output of audits.

6.6.3. NAD or Private Audit Firms

In other countries such as in the UK and Bangladesh, private audit firms are used to carry out performance audit to utilise the expertise of these firms and overcome the problems of staff shortage. In Malaysia, such practice has not yet being introduced. Pertaining to this, participants were asked about the idea of allowing private audit firms to carry out performance audit.

Eleven of the fourteen auditors were not in favour of using private audit firms to conduct the performance audit. They suggested that the practice should remain as it is now. Six auditors claimed that using private audit firms would not suitable due to differences in the working environment.

“Performance audit is different from other types of audit. An auditor needs to be experienced and well versed with public sector policies and rules and regulations.” (Auditor 10)

The rejection of the idea was also because of the confidentiality of information.

“In other countries, private auditors carry out the performance audit. The way things are, if we do not have the expertise, we will not go to the area. If we want to do it, then we need to get outside parties. When you bring them in, there is an element of confidentiality need to consider.” (Auditor 1)

“We do not hire private audit firms to do performance audit on our behalf. In performance audit, there are a lot of policies of government

and another aspect that cannot be disclosed or accessed by the public, such as which involves national security.” (Auditor 7)

Meanwhile, two auditors were against the idea because they were very concerned as to the hiring cost and the quality of output.

“If we subcontract to private audit firms, the first thing to consider is charges.”(Auditor 3)

“I am afraid that if we hire private firms, the results would not match with what we are expecting. Another problem is that they need training like us and to follow the same guidelines.” (Auditor 4)

Only three auditors are in favour of using private audit firms to conduct a performance audit. They argued that the use of private sector auditors would increase the effectiveness of a performance audit. According to these three, the issues of confidentiality and quality can be handled appropriately through other mechanisms. Their position is noted in the following comments:

“I don’t see any problem with that. There are lot of government departments. Use of private audit firms would reduce our burden in conducting performance audit.” (Auditor 6)

“We can appoint private auditors but may not be able to conduct an audit on all departments, as some documents are confidential.” (Auditor 11)

“No difference since the standards and guidelines are there. We can appoint them to conduct on our behalf. We can monitor what they are doing.” (Auditor 9)

In response to the same question, seven PAC members support the idea of using private audit firms. These PAC members considered NAD would benefit from this practice by overcoming the staff shortage and timeliness of audit reports. The following quotes depict this view:

“It does not matter... I am ok since there are so many departments. Therefore, they need to be fast. To do this will be more realistic”. (PAC 1)

“Not an issue for that. I do not think it would affect the quality, the independence of the auditor and so on. In fact, it can overcome the problems of shortage of staff at the NAD.” (PAC 4)

“It would benefit the NAD since they do not have enough manpower. Also, in terms of expertise, the NAD can utilise the expertise of these firms where they think they cannot do it.” (PAC 6)

“If the Auditor General thinks it can improve from the current situation, then he should proceed with the private auditors.” (PAC 8)

However, one PAC member disagreed arguing it can impair the auditor independence.

“Using a private firm would overcome the problem of timeliness in producing an audit report. This is the angle, where the private firms can come in, but the problem is the private firm is more profit oriented. Whether the accountability is for the people or stakeholders that is the question where we have to find some equilibrium. I’m afraid that this private audit firm would respond more towards the auditee.” (PAC 5)

One journalist shared the same opinion of this PAC member claiming that the private audit firms are not suitable because of their orientation to profit and this would affect the final findings of the audit.

“I am afraid that the private firms cannot achieve the purpose of doing the performance audit. They are doing the business and profit oriented. If they write something bad or let’s say irregularities in one department, this can be a threat to their business.” (Journalist 2)

Four auditees also did not think that hiring private firms would provide solutions to the performance audit. Similar to the auditors against this idea, these auditees claimed that the private audit firms are not familiar with operations of the public sector agencies. The following comments depict this view:

“Hiring a private auditor is not suitable as the public sector environment is different from the private. We as a statutory body and are subject to the policy, circulars and monitoring from the government.” (Auditee 4)

“The problem with the private auditor is that they do not understand how the public sector agency like us operates. We want to learn from

auditors. If they do not understand the system, how are they going to evaluate the activity?” (Auditee 6)

In contrast, four participants from the ‘other users’ group, argue that private firms would give some practical solutions to the problems faced by NAD.

“It would be a practical solution since the Auditor General does not have enough staff to audit all the departments.” (Politician 2)

“It would be better because their expertise can be utilised in areas where the Auditor General cannot do it.” (Academician 2)

In sum, the opposing views among the groups were obvious pertaining to using private audit firms to conduct performance audit. The majority of auditors and auditees opposed the idea by stating the issue of confidentiality and competency as the main reasons for rejection of the idea. Others saw the idea as a solution to the staff shortage and tight reporting deadlines and the opportunity to improve the quality of audit by utilising outside expertise.

6.6.4. Auditor’s Training and Professional Development

All the auditors expressed satisfaction with the level of training provided by the NAD’s management. The auditors explained that training is part of their continuous learning. The selected auditors are required to attend training before being allowed to conduct the performance audit. Training would enable auditors to know the objectives of performance auditing, the criteria for examination and guidelines for conducting audit. In addition to that, there will be additional training throughout their career, which is compulsory to attend.

“All new auditors will be given proper training before they can do the audit. They will be briefed on every aspect of performance...objectives, guidelines, criteria and so on. Then they must go for further training, at least once a year. They will be told

about the development of performance audit, for example, in relation to the new method of investigation. At another time, they will be trained on how to write a report or other things like that. It depends on the level or experience of auditors...this is not including the training provided by other agencies. The purpose is to update their knowledge and to ensure they are up to the level required.” (Auditor 8)

All the users considered that it was essential to provide training to auditors in order to maintain their competence and keep up to date on the current requirements or guidelines. They also believe that the auditors are attending frequent training and professional development programme. One auditee made an interesting suggestion related to the training programme:

“Training should not only focus on learning the technical things...like what and how to search. The auditors also need to improve on their communication and interpersonal skills. People would not respect you when you are going to their agency.” (Auditee 3)

As demonstrated above, there was no discrepancy of view among participants pertaining to the frequency and levels of training provided to auditors. Nevertheless, training has certain impacts on the competency of auditors such as improving knowledge and technical skills.

6.7. Audit Reporting

This section presents detailed findings for issues pertaining to audit reporting. Opinions of participants were sought relating to sufficiency of content of information and format of audit report.

6.7.1. Contents of Audit Report

In chapter 4, the discussion highlighted the importance of the contents of audit to meet the users' information requirements. Among others, audit reports need to address the issue of

accountability as well as the problems and weaknesses associated with the programmes. At the same time, auditors need to ensure the issue of timeliness in publishing audit reports.

A majority of the auditors held the view that the contents of audit reports are adequate and are confident that the contents meet the user's information requirement. They also believed that the audit report is useful to the users. Most of them stated that using the 'balanced reporting' approach was the reason for their view. In the 'balance reporting' approach, the audit report does not only address the weaknesses or the problems of the programme but also on its success and strengths. The principles behind this approach are depicted in the following excerpts:

"I am happy with the information in the audit report. Comprehensive, clear and simple explanation, describing the negative and positive side of the activity and have some recommendations at the end." (Auditor 10)

"Previously, the emphasis was on the weaknesses of the project. But we viewed that this approach was not fair to the auditee. Our current practice is providing balance reporting. We are not only criticising the bad things of activity but also the success of the activity. If the project is good then we give credit to them." (Auditor 5)

Further, the auditors explained that the National Audit Department regularly reviews the contents in terms of structure, language and graphics to assist users in understanding the report. As the auditors commented:

"Last time, we say this project was not good but we did not say the reason. Subsequently, we say the reasons but we do not give any recommendation. Now if there are five reasons, we will provide five recommendations. The agency receives the complete report; issue is there, we show the criteria, show the conditions and findings, the cause and recommendation. So they get an overall picture what is happening." (Auditor 1)

"We use simple language and make the report more attractive. We include photos, diagrams and tables and are more transparent." (Auditor 8)

Unexpectedly, one senior auditor perceived that the audit report is not effective because of outdated information. Consequently, users are not interested to use the information. As she remarked:

“I think users do not use the information. Our audit report is not effective because the issues discussed are outdated.” (Auditor 2)

A few auditors, although satisfied with the contents admit that it can be improved by accommodating the benchmark with other agencies. This is depicted in the following quote:

“I think we still got a lot of space for improvement. Like for the current study we do not do benchmarking. With this method, we can measure the success of a project based on the same project that could be much better. At the moment, we don't do that.” (Auditor 3)

“At the moment, we do not benchmark our findings with similar projects. This is one aspect that we need to consider improving.” (Auditor 8)

A few users also expressed similar views. They felt that the Auditor General should be more critical on his or her analysis by doing a benchmarking exercise with a related agency. This would facilitate users in comparing the degree of success and is believed to motivate auditees to improve the performance. This is demonstrated in the excerpts below:

“Generally, the contents are good with the details and progress of the activity. One thing that I am not happy with is that the reports do not compare the activity audited with another activity which may be audited earlier or done by other agencies.” (PAC 8)

“It would be helpful to be able to compare to other similar projects and see whether this department is doing it a bit better or worse and this would perhaps motivate the department to alter things.” (Academic 1)

“Maybe they can give some extra information on costs and compare the same activity with other agencies. For example, they have done the audit at our nursing school. They can compare with the nursing school run by Kuala Lumpur General Hospital. From that, we can know the extent of our achievement compared to other agency.” (Auditee 2)

A majority of the users expressed dissatisfaction with the information inside the reports. Three PAC members claimed that the issues in reports were out-dated and believed that this is the main reason the public are not interested in read them.

“One of the big problems is that by the time certain problems are identified and put in the audit report, it’s maybe one or two years late. For instance, this happened two years ago but the report was produced last year. By the time the Auditor General identified the problem, it was already two or three years late. To present at the parliament is another one or two years later. Do you think people out there would be interests to this issue...maybe they know already by the time audit report is published.” (PAC 3)

“The report is too late, so the Auditor General should take action to make it available as early as possible.” (PAC 8)

Additionally, most of the users also viewed that the current audit reports are not useful to them. They explained the audit reports were limited because of merely describing the progress of the activities without critically analysing various aspects of the programme.

These views are highlighted in the following excerpts:

“Actually, the auditors just record what the people did. It just lists the problems, the efficiency and delays. Why this money not used, so much money is used?” (PAC 2)

“Outdated and performed in a routine way, not much emphasis on the impact of the project.” (Politician 3)

“This report is more to the explanation of what we have done. We are relying more on our internal reports and other reports prepared by one agency related to us.” (Auditee 3)

“We [auditors] must go deeper. Why we succeed? Why we failed?...not just mentioning, this and that... should have explanation for these things... for example, why this thing happened, its implications...and so on. We want to learn from them. So, they have to come out with something to add to our knowledge. We cannot do this because we are lack of resources.” (Auditee 4)

“The report is just re-written what we have done since the beginning of the activity. Not really useful to us actually. They need to include for example, the evaluation of the current policy at one agency.” (Auditee 6)

Other ‘users’ also agreed that the Auditor General should improve the contents by not only focusing on the issues but also suggesting more solutions and conducting on a more regular basis. The following comments highlight these points:

“The audit report is like a company report. We did this and we did that. The department is not doing well. What are your solutions? You as an auditor is an outsider looking into the operations. Your job is not just to say whether the things are wrong. Your job is also to tell me [auditee] how [the programmes] is going to improve” (Journalist 1)

“The problem is our auditor announcing the result today on what they have done 2 or 3 years ago. Then they say, for example, these few states are going to go bankrupt because of unsettled loans. If not careful, then they are going to bankrupt. What does that mean? What is the solution?” (Journalist 2)

“I expect them to give more suggestions with the details on what we should do. They also should tell us the alternative ways...not just saying that ‘this approach is not appropriate, management needs to consider other approach’”. (Auditee 1)

“The audit report would be more useful if there were no politics involved and provided that it was done regularly.” (Academic 2)

However, two PAC members felt that auditors should not be blamed for the delays in publishing the audit report as they argue it is beyond the Auditor General’s control. This thought is reflected in the following statements:

“Anyway, we realise that this is not the auditors fault. The problem is with the government departments, which always fail to provide the documents on time. This is usually why there are delays in the report [published].” (PAC 8)

“Government agencies also play an important role here. They need to ensure that all the relevant documents are ready and can be given at any time when the auditors need them. If the files went missing or could not be traced, these things can delay the work of auditors.” (PAC 4)

On the other hand, a few users were satisfied with the content and agreed that audit reports incorporate a lot of useful information that help them identify the level of efficiency of resources.

“Satisfy. We can use the information in our decision-making and improve our weaknesses. For example, in the report it says that we are spending a lot of money on buying equipment but then do not really use them. From that point we know that we still have the excess capacity.” (Auditee 2)

“Quite OK. From the report I can know to what extend the government department utilised the resources allocated to them...how efficient they are.” (Politician 4)

The section shows that there was a significant disagreement between auditors and users group with regard to contents of audit reports. All Auditors (exception to one senior auditor) perceived that the contents are adequate and meet the users’ needs. Nevertheless, a few auditors believed that there is a room for improvement such as by accommodating the benchmark of the programm. In contrast, a majority of PAC members, auditees and ‘other users’ perceived that the contents are inadequate and not useful for decision making as the reports mainly described what the government agencies are doing and lack of practical recommendations. Further examination would be carried out in the analysis of audit report to see whether the users’ perceptions are reasonable.

6.7.2. Format of Audit Report

In terms of format of audit report, auditors indicated that the present format is adequate and very helpful to the users when reading the audit report. Thus, they do not believe that any modification is required. Two auditors in defending the present format commented:

“We simplify the report like make a point form for long recommendations. Also use the simple and straightforward sentence in addition to balance reporting.” (Auditor 4)

“The format is adequate...It is not much different from other countries such as from the UK and Australia. In fact, we always review the format so that it would be more appealing to the readers.” (Auditor 2)

Although the auditors agree that the current audit reports are too thick for the users, they argued that this is unavoidable due to the nature of the audit which involves non- financial information.

“I think it is normal for a report like this... we need to cover the 3Es which is different from financial auditing. There are many issues needing to be highlighted. Furthermore, we have to present [express] our opinions, recommendations etc...this makes the audit report seems too long [thick].” (Auditor 13)

However, one auditor did not perceive that the current format is a main factor in discouraging the public from reading the audit report.

“It is not because the audit report looks so thick that make the public reluctant to read. It is something to do with the attitude of our people. They do not care what happens around them.” (Auditor 7)

Most users from all the groups viewed the format of audit reports to be inadequate. They were in favour of having separate formats tailored to the specific needs of the audit. The following comments illustrate this point.

“It would be helpful if the auditors can provide the executive summary in the front of the audit report. It would be much easier for me as the PAC member to get straight to the problems. There are lots of reports I need to look at.” (PAC 1)

“Though it is necessary to have some kind of format to follow, it should be used as a guideline only. The format should be flexible.” (Journalist 1)

“They should come out with simple and less wordings...probably in point form.” (Auditee 1)

In summary, there was a discrepancy between the perceptions of auditors and user groups respectively pertaining to format of audit report. Similar to the previous section, the majority of the users from all three groups view that the format needed to be modified to meet user’s needs. This area would be examined in the analysis of audit report to determine whether users’ perceptions are valid issues.

6.8. Auditing Standards

6.8.1. Adequacy of Auditing Standards

In chapter 3, the discussion has highlighted a number of reasons for the importance of auditing standards. Among others are to ensure uniformity of audit process and to allow comparisons of auditor's performance.

Many auditors believed that the current standards and guidelines for which the performance audit was conducted were useful as they cover all aspects of development of activities.

“We adapt the standard from the Asian Organisation of Supreme Audit Institutions (ASOSAI). They have already gone through a lot of committees on that and people from each country are involved. The standard is sufficient as to the present needs.” (Auditor 1)

One auditor, however, argued that audit standards are not necessary, as performance audit is different from other types of auditing. This auditor added that the present guidelines are sufficient.

“..Enough already....there is no need for auditing standards because performance audits involve subjective matters.” (Auditor 7)

One PAC member expressed dissatisfaction over the present guidelines and laws. He argued that the auditors lack authority to investigate fraud and irregularities in the organisation. Thus, he suggested more power be given to auditors.

“Maybe they can give more power to auditors to go further towards fraud or irregularities. The written procedures to detect fraud should be there.” (PAC 6)

Another PAC member felt that the present standards and guidelines are adequate. He further argued that the effectiveness of performance audit not only depends on the presence of the standards or guidelines but also on the integrity of those in office. He remarked:

“I do not think they do not have enough laws but it depends on how delicate the people are.” (PAC 2)

The rest of the PAC members, however, were not able to comment on the issue, as they are not familiar with the auditing standards and guidelines used by the NAD. Similarly, no auditees could provide any comments on the adequacy of the present standards and guidelines. They claimed that this issue is outside their knowledge.

One academic claimed that the present guidelines used by the NAD were not much different with the international level. He proposed that the standards and guidelines adapted be adjusted to suit the needs of local environment. The point is illustrated in the following comment:

“Any guideline must fit with the local environment. As I can see, the current guideline follows the international standards without much difference.” (Academic 2)

One journalist lent support to this opinion.

“But we look at the Performance Audit in Malaysia based on the standards set elsewhere. How much of the western standard forcibly can be applied into the system which is not ready for it?” (Journalist 1)

Another journalist on the other hand, felt that good auditing standards and guidelines would not make any difference. As he remarked:

“It actually depends on who is holding the post. It does not mean that when we have good standards or guidelines, we can have good audit report.” (Journalist 1)

In summary, there was a discrepancy of perception between auditors and users towards the adequacy of auditing standards in ensuring the effectiveness of performance audit. Auditors perceived that the present auditing standards are adequate for auditors to follow during the course of audit. One PAC member and a few users from 'other users' group perceived the present auditing standards as inadequate because they fail to accommodate local needs. Other users, however, unable to express an opinion on the issue asked.

6.9. Participants Knowledge and Awareness towards Performance Audit Process

This section presents details findings for participants' knowledge and awareness towards performance audit process. Participants were asked to state the perceived parties the auditors are accountable, parties who determined the issues for auditing and the availability of communication channels for the users.

6.9.1. Views on Parties to Whom Auditors are Accountable

On the issue of to whom are the auditors accountable, the answers provided by the auditors vary. The majority of auditors stated that they are accountable to the parliament as the top priority along with auditees, public, the government and top management of NAD. Surprisingly, two auditors did not identify the parliament as a party to whom they are accountable.

The answers given by the users from all groups on the same question also varies based on the group. For example, the majority of PAC members stated that the auditors are mainly accountable to the parliament. However, a few of them mentioned that auditors also accountable to auditees and government. Meanwhile, for auditees for instance, most of them stated that auditors are accountable to government in the first place.

6.9.2. Views on Parties who Determined the Issues for Auditing

On the issue of who is responsible for selecting the issue or topics to investigate, auditors responded by saying that at present they are mainly responsible for selecting the topics. Auditors explained that the process starts by identifying the projects implemented at the government agencies or from the issues discussed in the media. However, they also select the topics from other sources such as from the recommendation of the PAC members or a request from the auditees.

“In most of the cases we choose the topic. We list down the possible activities and choose the most appropriate based on the criteria specified in the manual. However, sometimes we also receive a letter from management [auditees] specifically asking us to investigate the particular contract, probably the officer suspect mismanagement in the project. PAC also sometimes requires us to do an audit on a particular topic by asking the Auditor General during the PAC meeting.” (Auditor 1)

“Normally we select the issue for examination. We usually refer to the government annual budget presented at the parliament. Sometimes, it’s based on the ‘hot’ issues appearing in the newspaper.” (Auditor 6)

A majority of the users believed that the Auditor General is responsible for identifying and selecting the topics for investigation. Most of the PAC members and auditees also believed that the auditors conducted the audit based on the suggestion or request by other interested parties such as the PAC and auditee itself.

“Of course, the Auditor General decides on the topic. We [PAC] are also used to request the Auditor General several times to audit certain agencies of a particular interest.” (PAC 5)

The practice of allowing outside parties to make suggestions however, raised a concern to one politician from the opposition party. This politician argued that the involvement of

outside parties in recommending topics to be investigated would undermine the independence of the auditors.

“If they do the audit after a request from other people...let say the minister...this minister then announces it in the newspaper. ‘We have requested the Auditor General to conduct the audit on this high profile project’... by claiming that the public want to know what actually happened to the project. Do you really think this minister wants the Auditor General to show the truth? This is all about political mileage.”
(Politician 1)

In summary, there is no disagreement among participants. This indicated that users are aware of the party involves in determining the issue for investigation.

6.9.3. Formal Mechanism to Communicate Information Requirements

On the issue of fulfilling users information requirements, the auditors responded by saying that at present they were providing information on management performance and whether such programme complies with the rules and regulations, procedures and policies. All the auditors stated that at present there is no formal method to determine the user’s information requirements. The current practice is to let the higher-ranking officers check the audit reports. One auditor explained:

“We are aware of the users. In the checking process, the reports go to the immediate leader. So, she is checking from the user point of view. Then, pass to the director. He also gave it due consideration. Finally, it goes to the Auditor General. It involves so many stages. So it is hoped that as the result of going through all these stages, there is a lot of improvement.” (Auditor 1)

However, one junior auditor commented that many auditors were not clear on what types of information the users specifically required since there is no method available to obtain those needs. At present, the contents in the audit reports are based on the basic

requirements and guidelines prepared by the Asian Organisation of Supreme Audit Institutions (ASOSAI).

On another issue related to availability of communication mechanisms with users, the majority of the auditors explained that to their knowledge no formal mechanism is available to the users at present should they need to communicate any information requirement. However, some of the auditors claimed that there are channels available for users to communicate with the auditors. The following quotes demonstrate the different opinions:

“One is through a website. In addition, there is a mechanism in the sense of letters coming to the Auditor General’s office.” (Auditor 1)

“As far as I know, we do not have a mechanism to determine the information needed by users. If they want further information, they will ring us. We will explain from that whatever information they need. We are used to having calls from ministers and government officials looking for information on certain issues.” (Auditor 2)

“I think we do not have that kind of thing. But, we actively hold seminars and talks to government officers. They can convey what they wish to us.” (Auditor 10)

All the PAC members explained that they do not have any problem communicating with the auditors as they have regular meetings with them. Therefore, any information required will be asked during the PAC meetings. Extracts below illustrated the point:

“At any of our meeting or hearing the Auditor General himself will be present. So, if we have something to say or comments we can do it during our meeting.” (PAC 1)

“We have regular meeting with the Auditor General. That is the time we ‘socialise’. We have access to them and can ask them questions or get further information or to convey our message.” (PAC 5)

Some of the auditees expressed dissatisfaction with the available options to communicate with the auditors. Auditees claimed that they have to use their own initiative by calling the NAD or sending an email in order to keep a record. One auditee remarked:

“No formal mechanism. What we normally do is we call them but to make it a formal record we usually send them email.” (Auditee 5)

Another auditee however, notified that the communication is done through the exit conference with the auditors. The following excerpt highlights this point:

“We have an exit conference with them. So during this time, if we are not satisfied or have something to argue, we let them know.” (Auditee 4)

All the users from other groups claimed that they are not aware of any formal mechanism available to communicate with the auditors. However, most of them believed that the message can be conveyed by contacting the NAD.

“As far as I know, no formal mechanism exists. Probably the Auditor General should make available a channel like a complaint or suggestion form.” (Politician 3)

None of these users has made contact or has the intention to contact auditors in case of needing any information.

The findings show that there is a divergence of views between auditors and the users on the availability of communications mechanisms for users to communicate their information requirements. Overall, the PAC members believed that a PAC meeting is their formal communication channel. Other user groups, however, believed that no formal communications channel is available and this view is shared by many auditors. The comments from participants show that there is a need for NAD to introduce formal

communications mechanisms such as forums and dialogue to provide the opportunity for users to convey their information needs.

6.10. Summary

The aim of the interviews for this study was to explore the perceptions of auditors and the users in relation to the issues in six audit concepts. The findings from the study show that there were significant divergence of perceptions between auditors and users over a number of issues. These include, extending the scope of audit mandate to question the merits of policy, fraud detection exercise, auditor independence from general perspective, provision of MAS by auditors, influence of management, executive and external parties on auditors, qualification and skills of auditors, using private audit firms to carry out audit, content and format of audit report, and adequacy of auditing standards. The less significant divergence of opinions was discovered on two issues comprising the extent of the examinations of 3Es and adequacy of auditing standards. These have suggested the existence of the audit expectations gap in the Malaysian public sector in the context of performance audit.

A further scrutiny of findings indicated that the gap clearly resulted from auditor's deficient performance such as on the issues of the extent of the examinations of 3Es. For other issues such as auditor independence from general perspective, influence of management, executive and external parties on auditors, qualifications and skills of auditors, content and format of audit report were the resulted of deficient performance and deficient standards. Chapter 8 provide further discussion on this issue.

Additionally, findings also highlighted a few areas for further analysis such as the extent of the examination of 3Es, fraud detection and reporting exercise, contents and format of audit report. The next chapter attempts to address these issues by analysing the audit reports.

CHAPTER 7

AUDIT REPORTS ANALYSIS

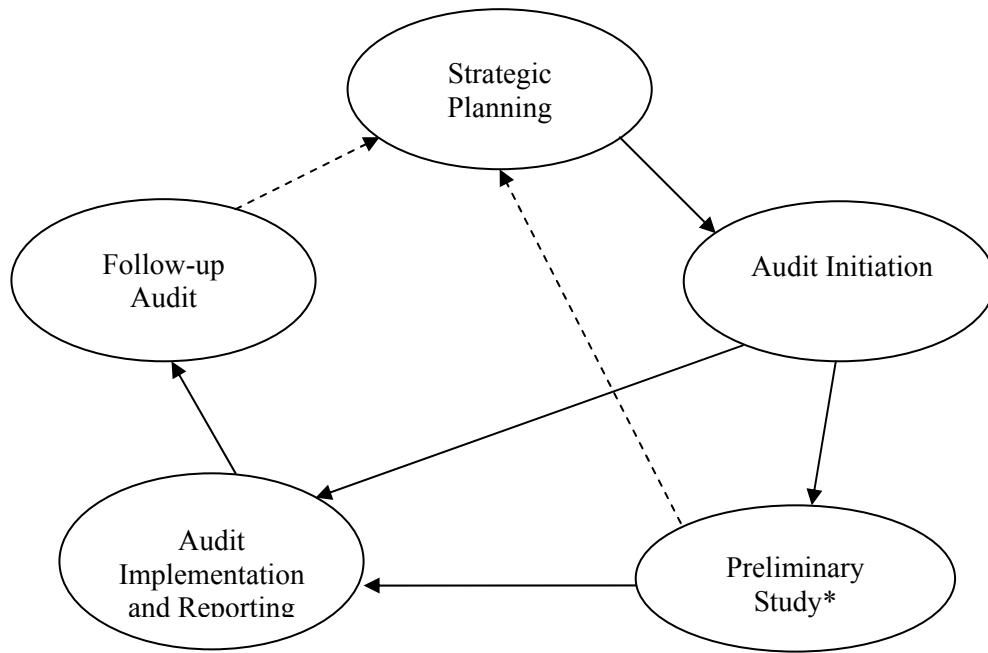
7.1. Introduction

The objective of this chapter is to present the findings from audit reports analysis. The analysis sought to provide additional information on the causes of the audit expectations gap and the reasonableness of the expectations of users, especially to the issues under the concepts of audit reporting and audit scope. For the purpose of this study, four audit reports published in the year 2003 were chosen, the latest audit reports available during the conduct of study. As mentioned in chapter five, the NAD provided these audit reports after the researcher made a formal request to the department. It is viewed that the numbers are sufficient, as they have been prepared by following the same guidelines. The study on audit reports is important for two reasons. Firstly, they are the main record of what the National Audit Department (NAD) has found in their fieldwork and the principal means by which the auditors communicate with their users. Secondly, they have also become one way in which the NAD can ascertain how much work has been completed and whether their objectives were achieved.

This chapter is organised as follows. Section 7.2 reviews the guidelines in preparation of performance audit reporting. Section 7.3 presents details of an analysis on four audit reports. A discussion of the findings from the audit report analysis is provided in section 7.4. Finally, section 7.5 provides the summary.

7.2. The Guidelines in the Audit Report Preparation

In the NAD's Performance Audit Guidelines, audit implementation and audit reporting are the fourth stage of the audit process. The NAD regards the performance audit process as a cycle comprising five stages. Briefly, it describes the first stage as involving a strategic planning in which all information related to the auditee is collected and studied. The aim of this stage is to identify possible topics for investigation. Once a topic has been selected, the process proceeds to the second stage, a detailed plan for the implementation of audit. In the third stage, a preliminary investigation is undertaken for the purpose of obtaining relevant information and identifying significant key issues. Stage four in the cycle is the implementation of fieldwork and the publication of the report. In this stage, auditors carry out audit fieldwork involving the collection of evidence and development of findings. At the end of the audit process, auditors prepare the report for publication. Follow-up audit is the final stage in the performance audit cycle. This procedure is performed a year after the publication of the audit report. The performance audit cycle and the specific audit reporting stage are shown in Figure 7.1.



Note:

————> Normal audit process

- - - - -> Feedback

* Preliminary study would be carried out if information were insufficient

Figure 7-1: Key phases in performance audit cycle

In terms of audit reporting, the NAD follows a standard format, as outlined in the Performance Audit Guidelines in which applies to all audited agencies. A review of the Performance Audit Guidelines (JAN, 2002, p. F-5) found that the form and content of all audit reports are founded on the following general principles.

1. **Title.** The opinion or report should be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others.
2. **Signature and date.** The opinion or report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date.

3. **Objectives and scope.** The opinion or report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.
4. **Completeness.** Opinions should be appended to and published with the financial statements to which they relate, but performance reports may be free standing. The auditor's opinions and reports should be presented as prepared by the auditor. In exercising its independence, the SAI should be able to include whatever it sees fit, but it may acquire information from time to time, which in the national interest cannot be freely disclosed. This can affect the completeness of the audit report. In this situation, the auditor retains a responsibility for considering the need to make a report, possibly including confidential or sensitive material in a separate, unpublished report.
5. **Addressee.** The opinion or report should identify those to whom it is addressed, as required by the circumstances of the audit engagement and local regulations or practice.
6. **Identification of subject matter.** The opinion or report should identify the area to which it relates. This includes information such as the name of the audited agency, the date and period covered by the audit and the subject matter that has been audited.
7. **Legal basis.** Audit opinions and reports should identify the legislation or other authority providing for the audit.
8. **Compliance with the standards.** Audit opinions and reports should indicate the auditing standards or practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures.
9. **Timeliness.** The audit opinion or report should be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action.

Additionally, section [3] of the Performance Audit Guidelines requires auditors to include the following matters:

‘Auditors should determine and prescribe an appropriate performance audit report structure. The structure should include an introduction to the audit activity or theme, audit objectives and scope, audit criteria, observations and findings, conclusions and recommendations and should take into account any auditee management response.’ (p. F-6)

7.3. Analysis of Audit Reports

For analysing audit reports in this study, the researcher follows the comparing approach applied by Hatherly and Parker (1988). Specifically, these researchers employed ten criteria for analysing the format and content of performance audit report. These include 'audit objectives, audit scope, audit procedures, problems identified, causes of the problems, future-oriented recommendations, auditee accomplishments and improvements, views of auditees, language and presentation' (p.32). The similarities of criteria employed by Hatherly and Parker (1988) with the principles outlined in the Performance Audit Guideline were the main reason for the researcher selects this approach.

7.4. Discussion of Audit Reports

7.4.1. Audit Report 1

Management of Food Supply at University Technology MARA (UiTM)

The management of food supply audit was undertaken in 2003. The objective of the audit was to determine whether the food supply for UiTM students is managed efficiently, properly and according to agreed procedures. Specifically, the audit covered the procurements, preparation, serving, storing and monitoring of food supplies at the main campus and its' four branches. The audit was conducted by interviewing related officers and students; and examining the documents, contracts and related records for the year 2002 and 2003. It was observed that the report was prepared according to the format as required in the guidelines as it had detailed out the topic, objective, scope and methodology of the audit undertaken.

The findings from the audit were reported by categorising them based on three sections: planning, implementation and monitoring. Under the planning section, the study analysed the structure of the department responsible for programme and the policies involving budgeting, staffing and purchasing of supplies and guidelines as outlined in the food preparation. For the implementation section, the report discussed in detail the allocation and usage of resources, compliance with contracts and policies and management of facilities and equipment. In the last section, monitoring, the report commented on the current mechanisms exercised by the UiTM in ensuring the operation of the programme runs according to the procedures and regulations. The audit opinion was stated at the end of each issue which demonstrated what the auditor felt about the plans, implementation and monitoring by the UiTM. Significant issues and weaknesses were highlighted to ensure attention of the users. Tables, graphics and photos were added to the report it ended with a conclusion and recommendations for the programme.

In relation to the objective of the audit, as stated above, the report showed that an extensive study on the purchasing procedures by the UiTM and the conclusion drawn that the food raw materials were bought at the lowest possible price with regard to quantity and quality. The conclusion from the audit was that the university was buying its' raw materials in an economic manner. Therefore, the auditor had included the economy audit, although this was not stated directly in the objective. With regards to efficiency, the audit found a lack of management planning, under utilisation of funds, overstaffing and poor maintenance of equipments. The study concluded that the university was not efficient in its operation and there was scope for improvement. Although the objective of the audit did not clearly

measuring the effectiveness of the programme, the report, however indirectly discussed the effect of the programme. This is illustrated in the following excerpt:

“The test on the food by the auditors found that the fish served for lunch was not fresh and the spinach contained particles of sand”

In addition to this, the report showed that the auditor commented on the policy of the programme. For example, it stated:

“Overall, UiTM has planned the food supplies in a satisfactory condition. However, UiTM’s policy on this programme is not clear and does not provide guidelines for food preparation to students.”

This comment is consistent with the auditors replied during the interview in that they did not question the merits of the policy objectives, but gave comments for improvement.

The report had identified several problems in the operations that constrained the smooth implementation of the programme. However, in contrast to the number of problems mentioned, the report did occasionally specifically state their causes. UiTM’s responses to the problems were also mentioned in the report. However, the analysis could not find any indication of responses of auditees in terms of a disagreement with an auditor’s opinion.

In total, the report included 18 audit opinions in which the auditors provided a view on a particular issue. It was observed that, some of the audit opinions given were too general with no explanations or examples on what needs to be improved. This can be seen in the following remark:

“In audit opinion, monitoring by UiTM is satisfactory. Existing mechanisms should be maintained and developed further.”

In term of recommendations, six recommendations were suggested to UiTM for consideration. Five recommendations basically required the management of UiTM to

consider reviewing their procedures on food preparation and contracts with suppliers. However, it was found that, one recommendation was future oriented as stated:

“Food supplies to students based on cafeteria system need to be considered to replace the current methods of giving food subsidies using coupons.”

7.4.2. Audit Report 2

Nursing Programme at the University Malaya Medical Centre (UMMC)

The audit on the Nursing Programme at the UMMC was conducted by the Statutory Body Division of NAD. The objective of the audit was to determine whether ‘the nursing programme at the University Malaya Medical Centre (UMMC) had been planned and implemented properly and efficiently’ (Laporan Audit 2003). The investigation involved the aspects of planning, implementation and monitoring for the course Diploma in Nursing and involved examining the records and documents from 2001 to 2003. In the audit process, auditors conducted interviews with officers and undertake physical observation on the facilities provided at the School of Nursing.

The report was prepared according to the standard format as outlined in the Performance Audit Guidelines by stating the topic, objective of the study, background of the organisation and programme, findings and recommendations. The issues identified during the audit were discussed under the relevant categories: planning, implementation and monitoring.

The analysis of the report, with regards to the economy audit found that there was no clear indication that this part had been touched in the report. No attempt had been made, for example, to assess the cost of acquisition of teaching equipment or hiring contract staff, although these issues were discussed in details. As stated in the objective, the study did examine the efficiency by producing evidence of under utilisation of building space and an insufficient student's allowance. In terms of the effectiveness audit, however, the study failed to investigate the effectiveness of the programme because nothing about the results of what the Nursing Programme actually achieved had been reported. For examples, the report did not provide any information on the number of students graduating from this programme, assessment on the quality of students it produced or the effect of an insufficient student's allowance.

It is also discovered that the auditors had recognised the improvements done by the UMMC. This is consistent with the responses from the interview where the auditors provided the balance report, although limited in numbers. For example, it reported:

“... the curriculum for the Nursing Diploma at the UMMC has been arranged accordingly. A reviewing and restructuring process of the programme has occurred four times since its establishment 35 years ago indicates that UMMC always follow the latest developments in order to produce well trained nurses with good knowledge and skills.”

Another favourable observation was that the report clearly identified the problems on the programme and discussed their causes at the same time. The report was also presented according to the outlined structure with pictures, tables and point form summaries.

The presentation of the report was also reasonable as it utilised photos and tables in presenting the information and showing the current progress of the programme. The format was also consistent with the format mentioned in the Performance Audit Guidelines.

The report ended by briefly describing the conclusion and recommendations. It concluded that the Diploma Nursing Programme had met its objective in providing well trained nurses. Three recommendations were also suggested for consideration with a particular focus on the review of procedures and regulations relating to staffing and students that failed to settle their debts. One recommendation considered as future-oriented suggested new systematic monitoring mechanism be established to monitor the programme. No further explanation was given on this suggestion.

7.4.3. Audit report 3

Loan Scheme to Small and Medium Industries Programme by Small and Medium Industries Development Corporation (SMIDEC)

This report was prepared based on the standard format outlined in the Performance Audit Guidelines. It started with the title of the study followed by a brief background on the organisation. The objective of the study was also clearly stated which was to determine whether the loan scheme to small and medium industries had been efficiently and properly managed. In addition, the report briefly mentioned the scope and procedures undertaken. Further, the report explained the methodologies undertaken. The audit was conducted by examining the records and documents related to the Loan Scheme management for the period 2002 and 2003 in addition to interviews with the related officers and loan recipients and; visits to the factories.

The analysis on this report found no evidence of auditors trying to assess the economy related issues. Although the report noted on staffing, the auditors did not assess, for

example whether the numbers of staff appointed was appropriate. In relation to efficiency, the auditors examined the related issues. For example, the auditors commented positively on the handling process of loan and repayment records. However, perhaps due to efficiency of management in running the programme, the issues were discussed in details.

In contrast to other reports, the analysis found that this report has discussed in detail the effectiveness of the programme. For example, the report found that most of the objectives had been met and the programme had brought benefits including expansion of new products among the factories and increasing numbers of women involved in businesses. The report also demonstrated the overall performance of the programme by comparing the number of recipients and the amount distributed with the allocated amounts. A comparison of performance according to the sector, race, and state was also clearly mentioned. Another interesting finding in the report was that it went further by providing comments on the agency's decision in terms of providing loans to small and medium industries. It stated that:

‘In audit opinion, corporation need to reconsider their authority in giving out loans as there is no existing Act of the Corporation which makes it illegal from the law point of view’.

Another strength of this report was that it identified the some of the problems and causes. For instance, the report found that a low number of participation among the Bumiputra and women entrepreneurs was due to a lack of initiatives and management commitment to acknowledge the existence of programme to the public. However, the analysis found that the report did not state any response from the agency concerning the issues raised.

The report also warned that the future of this programme is uncertain, given that the programme is not under direct management of SMIDEC and due to the possibility of a

reduction in the funding by the ministry. It called on management to agree a comprehensive set of measures to assess the ongoing cost and impact of the programme in the future years.

“..The management of Loan Scheme conducted entirely by MIDF made the function of SMIDEC as a channel for distributing financial resources and not as an agency responsible for the development of the small and medium industrial sector.”

In addition to that, there was also evidence which showed that the auditor recognised the improvements made by management. This achievement was highlighted at the end of the section to show its significance. It stated:

“..efforts by the management in collecting debts has resulted in an increasing amount of payment. These encouraging efforts should be pursued to other states..”

In terms of presentation, the report clearly followed the format outlined in the Performance Audit Guidelines. The report included many diagrams, charts and tables to assist users in getting a picture of the current progress of the programme. The audit opinion was highlighted to attract attention and show its' significance.

7.4.4. Audit Report 4

Land Development Planning Programme implemented by South Kelantan Development Agency (KESEDAR)

The audit on the Land Development Planning Programme was conducted in early 2002 by the Statutory Body Division of NAD. The objective of the audit was to determine whether the Land Development Planning Programme was planned and managed properly and efficiently.

Based on the report, it found that some general references made to audit procedures. It stated that the audit was conducted at KESEDAR headquarters by examining the records and related documents of the programme from 1980 to 2003. Interviews with related officers and physical observations were also conducted and mentioned in the report.

There was no clear indication which showed that the report provide any examination concerning the economy section. There were however other comments which related to efficiency. For example, the report stated:

“ the failure of an agency to keep proper information about settlers has resulted in additional operating costs and inefficient use of manpower.”

In contrast to economy and efficiency, the analysis revealed that this report emphasised on the part of effectiveness. This can be seen from the various comments on the outcome of the programme. Some examples include:

“The area had been developed a few times in the early 1980s and 1990s but is failed due to threat by wild animals.”

“At present only 20% of palm oil and 10% of rubber estates are being maintained satisfactorily. This has resulted in declining the life span of the output.”

In addition, the report went further by giving a comment on the Land Development Planning Programme implemented by South Kelantan Development. The report stated that:

“In audit opinion, Land Development Planning Programme is reasonable and essential, at the right time in developing South Kelantan and having productive society.”

This report was clearly presented and highlighted significant issues, some presented in point form summaries. In addition, it fully utilised graphs, photos and tables in order to

make the report understandable. Like the other reports, the format of this report consistent with the format outlined in the Performance Audit Guidelines.

The drawback of this report was that it failed to recognise any accomplishments and improvements that auditee had achieved. Whether this reflects a failure in terms of auditor or due to a lack of achievement by the auditee is difficult to determine. Besides that, the report also failed to include any responses from the auditee concerning the problems faced.

The report ended with a conclusion and recommendations. Future oriented recommendations included in the report requested management to prepare long-term strategic plans and to introduce benchmarking within the agency.

The analysis on the audit reports demonstrated that the auditors fairly concentrate on all three the economy and efficiency of a particular programme. Despite the fact that NAD has a legal mandate to conduct audits on effectiveness, it seems that very little has been examined. The evidence from four audit reports showed that the NAD focused the examination on the area of economy and efficiency. The audit reports on the UiTM and UMMC demonstrated that NAD failed to assess the effectiveness element, although in principal, it should be part of the study. On the other hand, for the audit reports on SMIDEC and KESEDAR, auditors did comment the policy of the agency. It questioned the policy of SMIDEC and in other situations praised the programme implemented by KESEDAR. This is surprising, as no comment was made on any programme introduced by other agencies in other reports. A summary of the analysis is shown in Table 7.1

Table 7-1 Comparative performance audit report contents and format

	Audit Report 1	Audit Report 2	Audit Report 3	Audit Report 4
Objective	Yes	Yes	Yes	Yes
Scope	Yes	Yes	Yes	Yes
Procedures	No	No	No	No
Problems and Causes Identified	Good	Fair	Good	Fair
Future-oriented Recommendations	No	Good	Fair	Good
Recognised Improvement	No	Fair	Good	No
Auditee Responses	Fair	No	No	No

7.5. Summary

This chapter has presented the findings from an analysis of four audit reports. Since the main objective of employing this method was to explain and illustrate the findings from the interviews in more detail, key issues relating to the contents and format were applied in the analysis. The key issues discussed were related to the objectives of the audit, scope of the audit, procedures employed, identification of problems and causes, future oriented recommendations, recognition of improvement and acknowledgement of the auditee responses.

The following chapter provides a thorough discussion from the findings in this chapter along with chapter six.

CHAPTER 8

DISCUSSION

8.1. Introduction

This chapter aims to integrate findings from interviews with audit reports analysis. A discussion centres on the summative nature of the findings with links to the research literature. It also compares the responses of the four participant groups, namely, auditors, PAC members, auditees and other users. The similarities or differences of the views of auditors and users is one the core issues that will be highlighted. A discussion follows on the extent of similarities or differences of the findings from the views expressed in the literature on the expectation gap of a performance audit. In addition, a rationale for any discrepancy is suggested.

This section is organised as follows. Section 8.2 discuss the findings on the participants general knowledge and attitudes towards performance audit while section 8.3 discusses findings on audit scope. The findings on auditor independence is discussed in section 8.4 and section 8.5 discusses findings on auditor competence. Section 8.6 discusses the findings on audit reporting while section 8.6 discusses findings on auditing standards. Finally section 8.7 provides the summary.

8.2. Participants General Knowledge and Attitudes towards Performance Audit

8.2.1. Objective of Performance Audit

The findings from the interviews suggest that the auditors are relatively knowledgeable and have good understanding of the objectives of performance audit. However, it was observed that there is a difference in the level of understanding among the auditors in relation to its functions. The top management level of auditors explained that the objective of performance audit is to assess whether the government agency has managed the programme economically, efficiently and effectively as stated and required in the Audit Act 1957. The junior and senior level of auditors however appear to have considerable knowledge of performance auditing, their understanding mainly relating to the aspects of economy and efficiency only. Although the difference of the level of understanding is not obvious, the result is surprising as it was anticipated that the auditors were all fully clear and collectively understand the functions of a performance audit.

As expected, the users had limited knowledge and understanding about the functions of performance auditing. The findings showed that many auditees and users from other users group were unable to provide answers to questions and some of the responses were not as clear as those of auditors. For example, one journalist believed that the objective of performance audit is similar to a financial audit, which is to provide an audit opinion on the financial position of the government agencies. Although a few users managed to explain the objectives of performance auditing, especially the PAC members their understanding was limited to the efficiency of the programme. This finding however, was not surprising, since these users consist of people from different background and disciplines and are not familiar with the auditing environment.

In general, the results suggest that there was a significant difference in the level of understanding between the auditors and the users of an audit report. This is due to the level of sophistication of the users in the auditing process, which is not same to auditors. In general, the PAC members appeared to have a better understanding than other users, although not as clear as the auditors. This might be due to their constant communication with the NAD. The lack of understanding among the users of audit reports in this study may reflect 'the extent of the relative 'knowledge gap' of the user groups' (Porter, 1993). Porter (1993) in her study on the audit expectations gap in the private sector in New Zealand found that the auditees, financial community and public have limited knowledge about the auditors' duties and responsibilities. She referred to the difference in knowledge about the auditors' duties and responsibilities between the auditors and user groups as the 'knowledge gap'. Similar to Porter's study, this study also discovered the existence of this 'knowledge gap' among participants. It is expected that this 'knowledge gap' to some extent would affect the reasonableness expectation by the users regarding the performance audit conducted by auditors.

8.2.2. Performance Audit Conducted by Auditors Met the Objective

There were mixed reactions within and across groups on whether the performance audit conducted had achieved its intended objectives. While all the auditees and the majority of PAC members and other users believed that performance audit achieved its intended objectives, a few of them thought otherwise. Among the reasons mentioned were, due to failure of auditors to report on effectiveness part of performance audit and inability of auditors to express their true opinion on particular issues. An analysis on the audit reports

appeared to support these reasons. For example, the analysis of the Audit Report 2 showed that no attempt has been made by auditors to assess the effectiveness of the programme. In another audit report, it was mentioned that ‘in audit opinion, the department should be careful in selecting the developer before making a decision to purchase the building’.

On the other hand, the auditors believed that they have fulfilled the objective of the audit. Their beliefs were based on the fact that their reports provided an impact on the agency. For example, one auditor claimed that because of the audit report, various government agencies such as the Ministry of Finance and the Public Service Department had approved additional funds and staffing to the audited government agencies.

These perceptions indicate that to some extent, there is a difference in perception of whether the performance audit conducted achieves its intended objectives, although they are less obvious. This might suggest that the users are not satisfied with the current level of performance of auditors, or in other words, that the performance of auditors fall short of their expectations.

The view that the performance audits failed to fulfill their objectives is consistent to the findings of the study conducted by Johnsen *et al* (2001). These researchers found that performance audits did not meet the intended objectives of performance auditing in Norway due to an inferior method of investigation and the inaccurate conclusions made by auditors due to lack of auditor competence.

8.2.3. Performance Audit provides Value Added Information

There was also a divergence of opinions between the auditors and users on the utilisation of audit reports. The auditors widely believed that the users (auditees, PAC members and politicians especially from opposition parties) actively use the audit reports. The users on the other hand, claimed that they rarely used audit reports. For example, most of the PAC members stated that they did not read all the audit reports and only read these on certain topics if there was a PAC meeting. Similarly, the auditees also explained that they do not read audit reports unless they needed to provide a reply for any issue arising to the PAC.

The findings from this study is similar to the study by Johnsen *et al* (2001) which found that the use of audit reports in Finland in practical development work is still defective. However, the study found that higher levels of management used the information more so than other levels of the organisation.

The findings of this study revealed that the role of performance auditing in Malaysia remains limited as the users did not fully utilise the findings in their decision-making. For example, a majority of auditees did not take into account the suggestions in the audit report as they viewed those suggestions as not practical for the implementation. This result to some extent showed that performance auditing failed to achieve its objective in promoting better management practice in the public institutions.

8.3. Audit Scope

8.3.1. The extent of Examination of Economy

The auditors explained that the audit objective is mentioned in all audit reports to inform the users on the objective of every audit conducted which covers the 3Es. Generally, all the users agreed that the audit objective is clearly stated in every audit report. However, the users claimed that the audit objective sometimes caused confusion. As one academician stated:

“they (auditors) are not consistent in using the words. In some reports, they use the words economy, efficiency and effectiveness. In other reports, they use the words economy, properly and wisely.”

As reported in chapter seven, two of the audit reports examined appeared to be consistent with their stated objective and with the concepts of performance auditing. However, in the other two audit reports examined, there were divergence with the stated objective where the auditors did not include reference to effectiveness audit. This point is in agreement with the claime of Glynn (1985) and; Gray and Jenkins, (1985) that effectiveness has been ignored whilst economy has been the focus of VFM audit.

8.3.2. Extending the Scope of Audit Mandate

It is evident that there is strong agreement among the auditors that they do not deal with the merits of the policy objectives. As mentioned in the previous chapter, auditors restrict themselves from getting involved with policy decision because of restrictions specified in audit mandate. On the issue of whether they should deal with the merits of the policy objectives, a few auditors believed that by dealing with issue, then the maximum benefit of performance audit can be achieved. The auditors claimed that in some cases the policy

might have a direct relationship with the success of the programme being implemented. Thus, the failure of a particular programme may be due to the inappropriateness of the policy. Some of the auditors in contrast, viewed strongly that they should not deal with the merits of the policy objectives, as it would place them in political controversy. The responses by auditors are consistent with the argument by Power (1997) in which he maintains that auditors would be facing problems in sustaining their claim of neutrality from policy making when reviewing the merits of the policy objectives. He argued that auditors run the risk of challenging political policies since it is difficult to distinguish between the effectiveness of achieving a particular policy goal and the question as to whether the policy is worthwhile.

On the users' side, it is evident that there was a pattern in their responses. All the politicians (from two groups: PAC members and other users) disagreed about whether the auditors dealt with the merits of the policy objectives. All other users strongly agreed. This pattern of result was not expected. One possible explanation for this is that the politicians might want to avoid the auditors from exposing or commenting on the effectiveness of policies which could impinge not only the government agencies themselves but the government as a whole. It is interesting to note that two user groups claimed that if the auditors have the authority to deal with the merits of the policy objectives, they would still 'play safe' by not commenting or touching controversial issues. They believed that an auditors future career would be in jeopardy if they dared to question aggressively on such issues. This suggests that the expansion of audit scope to assess the effectiveness of policy would impair auditor independence.

Thus, there appeared to be some disagreement between auditors and the users as to whether should deal with the merits of the policy objectives, indicating the existence of an expectation gap. Although the literature has provided a lot of arguments that the auditors should deal with the merits of the policy objectives, in Malaysia, the decision to include this new audit scope in the audit mandate would depend on the perceived political impact on the government. The results provide evidence that there is a misunderstanding among the users over the examination of the merits of the policy objectives. The auditor is not concerned with policy, but with its effect and whether such effects correspond with the intentions of the policy (Glynn, 1985). Therefore, it is necessary for auditors to pay attention to this issue as it can influence the users' perception over their responsibilities in the future.

8.3.3. Fraud Detection and Reporting Exercise

The previous chapter indicated that in previous research the users appear to have high expectations on the auditors to detect fraud and irregularities, whereas the auditing profession does not regard fraud detection as their responsibility. The findings showed that the auditors blamed the users for such gap. The auditors claimed that users misunderstand their duty concerning the fraud detection exercise. Furthermore, it is evident in terms of the present practice auditors at the NAD are not in a position to detect any kind of fraud unless any suspicion arises during the audit.

On the question should the fraud detection exercise be the responsibility of auditors, some auditors rejected the suggestion that the auditors should be responsible for fraud detection exercise. This outcome is understandable, as the auditors may want to avoid risk exposure

associated with the failure of detecting fraud. In case of Malaysia, another possible reason is due to the absence of audit mandate, which specifically required the NAD to exercise fraud detection. However, Chowdhury and Innes (1998) argued that the absence of audit mandate could not be regarded as an excuse for this responsibility as the auditor still have an obligation from a constitutional perspective. Their argument however, is not applicable in Malaysian context as the constitution in the Malaysia is different from Bangladesh. Nevertheless, there is one significant piece of evidence which appeared in this study related to the study by Chowdhury and Innes (1998). They found that the PAC members considered that the absence of performance audit restricted the detection and reporting of fraud, as the Comptroller and Auditor General audit was only examining and reporting on a part of the operations. This study however, provides evidence that the type of audit does not determine the extent of fraud detection exercise by the auditors. Instead, lack of statutory requirements appears to be the reason for auditors not to proceed with these roles.

On the users side, all the auditees and a few PAC Members were satisfied with the present fraud detection exercise while the rest of the users were totally dissatisfied. In addition, all the users with the exception to one auditee as expected recognised detecting fraud and irregularities as a duty the auditors should perform. There are two possible explanations for these expectations and dissatisfaction. First, as expressed by one of the PAC member the users are not happy with the current output of the auditors. Secondly, it might be related to the current situation in Malaysia where numerous government agencies have been involved with fraud and mismanagement allegations in their operations. Thus, it could indicate the adverse effect of these problems.

With regards to this study, there is a significant disagreement among the auditors and the users about the responsibility of auditors in a fraud detection exercise. This result is consistent with the Porter's (1993) study in which the users suggested that the auditors should detect fraud, illegal acts and theft by employees. She found that the audit beneficiaries felt the auditors do not perform satisfactorily on the duty related to detecting and disclosing theft and illegal acts by the director/management. She argued that the failure of auditors to perform these duties as deficient performance.

Additionally, this study confirms the conclusion reached by Chowdhury and Innes (1998) in which the authors suggest that auditor's responsibility for fraud detection is one of the factors that contribute to the audit expectations gap in the public sector. Therefore, based on the current evidence, it is reasonable to conclude that both users from the public and private sectors perceived that the duty to detect fraud should be the responsibility of auditors. However, the willingness of NAD to introduce a new guideline on fraud detecting exercise, which was discovered in this study, may reflect their commitment to meet the users needs.

8.4. Auditor Independence

8.4.1. Influence from Management, Executive and External Parties

All auditors at the management and junior level claimed that they would base their findings on the evidence regardless of whether they have received any influence from management or outside parties. In contrast, a few senior auditors admitted that they were not allowed to include certain issues in the audit reports especially those issues related to national security. The study found that some senior auditors let this factor influence them by

claiming that they are under pressure by the higher management and from the government officers. This result is in line with work of of McCrae and Vada (1997), which disclosed that the independence of the Auditor General is in direct conflict with administrative forces wanting to reduce their operations, influence and political leverage.

The user groups, however, were divided in opinion on the issue. For the PAC members, two out of eight believed that auditors could not maintain their independence all the time due to the external pressure especially from politicians. The majority of participants from other users group also believed that auditors are not independent all the time. They believed that the government administration still have discrete control over the NAD. This is due to the fact that the Auditor General is recommended by the Prime Minister. All the auditees, however, believed that the auditors are free from external influence and therefore independent. This strong level of agreement among the auditees is perhaps the result of their direct observation on auditors work during the examination and based on the issues reported in the audit reports, which correspond to their expectations.

This result shows that there is a significant disagreement among the auditors and the users (with exception to auditees) over the influence on auditors by external parties. The views expressed by a few auditors and the users were relevant in the context of Malaysia as job security and status are two factors that influence people's actions. This finding to some extent is consistent with the study by Chowdhury and Innes (1998) which found that auditors perceived that they are free from external influence but users' perceived that the auditors are subject to influence, especially from management.

8.5. Auditor Competence

8.5.1. Qualifications and Skills

All the auditors, auditees and the majority of PAC members and most of other users, believed that the current minimum qualifications are adequate to ensure the competency of auditors. Generally, the results show no significant differences in beliefs between auditors and the user groups and therefore, indicate no audit expectations gap relating to the qualification of auditors.

Relating to the experiences of present auditors involved in conducting performance audits, the majority of auditees are significantly more sceptical than other users. The auditees strongly believed that auditors, especially at the junior level, are inexperienced and therefore incapable of doing the investigation. Irrelevant questions, lack of communication and interpersonal skills and lack of knowledge about the auditee's agency are among the reasons mentioned to support their claims. The rest of the users, on the other hand, shared the same view of auditors that the auditors have obtained reasonable experiences prior to conducting a performance audit. However, all participants agreed that reasonable experience in financial statements audit are important since this audit provides a good platform to understand the operations, policies, procedures and regulations of government agencies. This result suggests that the auditors do not receive adequate training and exposure before conducting the performance audit.

8.5.2. Audit Teams from Different Backgrounds

The responses indicated that there were no significant differences in opinions between the auditors and users on the question of whether the audit team should consist of people from different backgrounds. There was a strong agreement among the participants from all groups (with the exception of two auditors) that an audit team consisting of people from different backgrounds will positively affect the quality of the audit.

Contrary with the finding in the above section, in which the users are satisfied with the current qualification of auditors, in this section they fully supported the idea of hiring auditors from different background other than accounting. The users from all groups believed that a lack of auditors expertise related to the programme they audited contributed to less critical analysis on the progress and in providing relevant suggestions. No possible explanation was discovered for this discrepancy.

Disagreeing with the others, two auditors strongly believed that hiring auditors from different backgrounds is not a practical solution at present. One auditor emphasised that this approach cannot be implemented, as the NAD does not recognise graduates from other disciplines other than accounting and the belief that the use of consultants or experts from related fields is sufficient. Another auditor believed that this step would lead to under-utilisation of staff.

In general, the findings of this study are consistent with the finding in previous study by Pendlebury and Shreim (1990) in the UK where 80% of auditors from the National Audit Office, Audit Commission and firms of accountants agreed or strongly agreed to the

suggestion that the audit team should include people trained in disciplines other than accounting. A study a year later also found that more than 80% of service department managers and finance officers agreed or strongly agreed to the proposed composition of the audit team. Thus, this study lends support to the claim by Anand (1988), Funnell (1998) and Lapsley and Pong (2000) that the composition of an audit team plays an important role in enhancing the quality of an audit. This to some extent, implies that the auditors are not competent on one side or want to improve the quality of performance audit on the other side.

8.5.3. NAD vs Private Audit Firms

There were significantly contrasting views within and between all the groups in terms of private firms conducting the performance audit. Many auditors believed that hiring private firms to conduct the performance audit would not be suitable as there are issues of confidentiality, fees and quality. They contend that government agencies operations, policies and procedures are different from private sectors. This in turn would result in difficulty in private firms identifying and understanding the problems in the agencies. A few users from other groups also believed that hiring private audit firms was not suitable as they are profit-oriented. In their opinion, these private firms would be flexible in their judgements. This belief is consistent with Chowdhury and Innes (1996), which asserted that the loyalty of private audit firms was with management and not with the public representatives. Thus, hiring private firms do not necessarily contribute to effectiveness of audit.

Although many auditors believed that hiring, private firms would not be appropriate, some auditors, PAC members and auditees believed that private firms would enhance the

effectiveness of an audit to some extent. A lack of staff at the NAD and examination of the areas where they do not have expertise were the major reasons for supporting hiring private firms. The findings of this study conform to the view of Barrett (2000) to a certain extent only when he states that hiring private firms would not be suitable for the conduct of a performance audit in public sector. He argued that private audit firms orientate towards financial auditing, therefore the auditors may face in evaluating non financial information.

8.6. Audit Reporting

8.6.1. Contents of Audit Reports

In terms of the content of audit reporting, there were significant differences in opinions between the auditors and two user groups: auditees and other users. The differences between auditors and PAC members were not so obvious, as only two PAC members expressed their dissatisfaction over the contents of audit reports.

This finding shows that the auditors strongly believed that the audit reports contain adequate information by acknowledging users on the current development and impact of the programme. They claim that the audit report includes a clear written statement of the auditor's opinion on a particular issue and the responsibility of management. Furthermore, the audit reports have been prepared with a balance between the strengths and weaknesses of the programme, which in their view, would be fair to the auditees.

Most of the auditees, on the other hand, disagreed that the contents of the audit report are adequate to meet the user's information requirement. They described audit reports are to be

limited in the usefulness as they are just describing what they are doing and addressing impractical recommendations. Two PAC members also shared the same view by claiming that the present audit report lacks useful information such as information on the expenditures, resources used and the impact of the programme on the auditee and the public. Regarding information that needs to be included in the reports, auditees and PAC members stressed that critical analysis on the performance and progress of the programme including the financial information, precise audit opinions and the views of auditee for any disagreement on particular issues need to be emphasised. One of them also expressed the need to include comments or statement from experts that have been involved with the audit. The results may indicate the auditors are not adequately addressing users expectations in terms of programme performance.

There is a need repeatedly expressed in the literature that the contents should be tailored to suit a user's needs with consistent analysis and information that enables users to monitor the performance of agencies (see Chowdhury and Innes (1998), Johnsen *et al.* (2001)). This study found there was a general convergence among the users that the current contents of audit reports needed to be improved. The auditors need to modify the audit report to include critical examination on the programme by using benchmarking, reports on the future programme and provide more relevant and future oriented recommendations. This is consistent with findings from a recent study by Johnsen *et al.* (2001). In their study, the authors found that the use of reports in practical development work in Finland local government is still defective. It found the audit report to be overloaded with audit information but not useful to the management.

8.6.2. Format of Audit Report

There was also evidence of a significant difference of opinions between auditors and the users concerning the adequacy of the audit report format to meet the user's information requirements. All the auditors believed that the present format of audit reporting is adequate and appropriate. They all agreed that the current length is normal and necessary as this type of audit involved subjective matters and non-financial information, which requires lengthy explanation. In addition, they agreed the present audit reports follow a standard format which make the reports similar to each other as they all are reporting the issues relating to the aspect of planning, implementation and monitoring. Therefore, any modification to the current format was considered not necessary. The users on the other hand considered the current format too long. As a result, they believed that it would lead to areas and important issues being overlooked in the audit opinion or may discourage users from reading it at all. To overcome this problem, one PAC member suggested that the executive summary is attached to the audit report. Nevertheless, many users agreed that the current format provided some benefits in terms of outlining the methods employed and the objective of audits.

This difference in opinions was surprising and unexpected considering the audit expectations gap literature in the private sector, demonstrated the long form audit report was assumed to reduce or eliminate the audit expectations gap. For example, Nair and Rittenberg (1987) concluded that an expanded audit report changed a user's perception about the relative responsibilities of management and auditors. Meanwhile, a study by Miller *et al.* (1990) found expanded audit reports to be more useful and understandable by bankers than the short form audit reports.

Nevertheless, this study from another perspective supported the findings in the study by Hatherly *et al* (1997) which showed that the expanded audit report has a useful but limited impact on the expectations gap. Their study found that the expansion of an audit report results in increasing the expectations gap with regards to the output of the audit, although there was evidence that the audit report expansion improved the user's perceptions on the dimensions relating to the audit process and audit environment.

8.7. Auditing Standards

There was an agreement among all the groups on the importance of auditing standards, guidelines and laws, to ensure the conduct of the performance audit. The participants believed that it was important to be consistent and to have clear auditing standards and guidelines, as they would be the criteria for assessment. In addition, the standards and guidelines would enable auditors to be aware of the expectations on their work. Additionally, it would enable them to compare the performance against standards set and review objectives. Thus, the findings of this study are consistent with Butt (1985) and Robert and Pollit (1994) who defended the need to have adequate standards and guidelines to make the reports comparable and to assist auditors to know what is required of them.

With regard to the adequacy of present auditing standards, laws and guidelines to ensure the performance audit, there were mixed reactions from all groups of participants. The auditors strongly believed that the present auditing standards, guidelines and laws are adequate and sufficient. Three users on the other hand, strongly believed otherwise. For instance, one PAC member stated that the present auditing standards and laws are

inadequate and therefore, these laws need to be amended to give more authority to auditors facilitate the performance auditing especially in the case of fraud detection. The academics viewed that the present guidelines are inadequate because they do not adapt to the local environment. Another PAC member however, observed that the effectiveness of the performance audit does not depends on the standards and laws but on the independence of the auditors. All the auditees and the rest of the users from all user groups, however, were not able to express their view on the adequacy of the current auditing standards, guidelines and regulations. This was due to their background as they lacked familiarity with the auditing environment.

Thus, based on the available responses, there was a significant discrepancy in the perceptions between the auditors and the users about the adequacy of present auditing standards, guidelines and laws. Therefore, there is a need for auditors to take constructive action to review and/or improve the audit standards, guidelines and laws where necessary for the improvement of audit performance.

CHAPTER 9

SUMMARY AND CONCLUSIONS

9.1. Introduction

The purpose of this final chapter is to summarise and draw conclusions on the main findings of this study, discuss their implications for auditing theory and practices, limitations of the study and suggestions for future research. This chapter is divided into several sections as follows. Section 9.2 highlights the purpose of this study while section 9.3 provides a summary of the thesis. A summary of findings is provided in Section 9.4. Section 9.5 provides recommendations for improving the performance audit practices in the public sector audit of Malaysia. Contributions of the study are discussed in Section 9.6. Section 9.7 highlights the limitations of the study. Finally, Section 9.8 offers suggestions for future research.

9.2. Purpose of the Study

The existence of the audit expectations gap is widely recognised in the private sector (Porter, 1993; Porter and Gowthorpe, 2004; Chowdhury and Innes, 1998; Chowdhury *et al.*, 2005). It is recognised that the gap exists due to differences in the perceptions of auditors and users over the audit functions and audit processes. In contrast, the audit expectations gap in the public sector is an emerging issue that has received less attention by researchers. Systematic studies on the perceptions of auditors and users of the audit report pertaining to this type of audit are nearly non-existent (exceptions with Shreim and Pendlebury (1990; 1991) and Johnsen *et al.* (2001)), despite its importance to the

successful implementation of government agencies programmes. Thus, this thesis is intended to contribute to the research in this area.

Performance auditing was promoted to the public sector as a control and monitoring mechanisms for achieving accountability among government agencies. It is viewed as a useful tool in examining whether programmes have been conducted economically, efficiently and effectively. In achieving this objective, the task is given to the Auditor General. In the Malaysian context, the public has voiced concerned on the conduct of performance auditing. Among others, the public expressed their concerns over the competency of auditors undertaking audits, timeliness of reporting and influence of external parties on auditors (Chapter two).

Motivated by these issues coupled with a lack of research in this area, this thesis attempts to explore the existence of the audit expectations gap in the Malaysian public sector within the context of a performance audit. To achieve this main objective, an examination of the perceptions of four relevant parties (auditors, PAC members, auditees and ‘other users’ (journalists, politicians, academics)) was undertaken. This is a necessary and important step to determine the existence of the audit expectations gap in Malaysia. Furthermore, this study aims to obtain information relating to the potential causes of this audit expectations gap.

9.3. Summary of the thesis

The introduction to the study provides background information on Malaysia, the context of the present study (chapter two). In this chapter, basic information on Malaysia including

the historical background, the composition of the public sector, and economic development, the development of public sector auditing, the roles of the National Audit Department (NAD) and some main users of audit reports are highlighted. The discussion demonstrates that the performance audit plays a major role in ensuring and safeguarding accountability of public sector agencies. In addition, problems associated with the performance audit process are discussed for providing a deeper understanding on the issues occurred. These include problems with meeting audit-reporting deadline, concentration on the financial and compliance audit rather than on performance auditing, shortage of staff and influence of external parties on auditors.

In chapter three, the researcher examines briefly the related literature on the audit expectations gap. The limited literature on this area in the public sector necessitates the researcher referring to the private sector context. From the literature, it can be acknowledged that the audit expectations gap, as suggested by Porter (1993), consists of three components: an auditor's deficient performance, inadequate auditing standards and unreasonable expectations by users. Other than that, two research approaches to study the audit expectations gap by Porter's (1993) and Chowdhury's (1998) reviewed. These two approaches serve as the basis for the development of a conceptual framework for this study. In the conceptual framework, six audit concepts are positioned: auditor independence, auditor competence, auditor roles, audit reporting, auditor ethics, and audit standards.

Chapter four reviews the literature related to the performance audit. It is discovered that performance auditing is a result of the public sector reform. In this context, it is needed to ensure accountability of officials and government agencies, to improve the performance of

government agencies and to overcome the limitations of financial audit. Further analysis shows that the performance audit is criticised because its lack of measurement criteria pertaining to the examination of economy, efficiency and effectiveness. Prior studies indicate that the audit expectations gap exist especially in the area related to audit mandate and competency of auditors.

Chapter Five explains the methodological aspect of this study. In this chapter, the research methodology including research paradigm and method of the study, data collection process, profile of participants, fieldwork process and data analysis are presented in detail. The study is framed within interpretivism/constructivism paradigm due to its suitability in addressing the research questions. A qualitative research method is chosen as the most appropriate data collection technique because of its relationship with interpretivism/constructivism paradigm from the epistemological perspective. The data was collected using semi-structured interviews and analysis on the audit reports. The interviews were aimed to elicit the perceptions of participants in order to examine the existence of the audit expectations gap. Additionally, analysis of audit reports was adopted to reinforce the findings in the interviews. The qualitative software package, Nvivo, was used to facilitate researcher in analysing the data from the interviews.

The findings from interviews and analysis of audit reports are reported in Chapter 6 and Chapter 7 respectively. The research questions and the summary of findings from these two chapters are as follows.

1. Does the audit expectations gap exists with regard to performance auditing in the Malaysian public sector? If it exists, in which component (s) does the gap occur?

The findings suggest that the audit expectations gap exists in the Malaysian public sector in the context of performance audit. The evidence demonstrates that the gap occurred in all three components. Specifically, the gap occurred in the deficient performance component was a result of divergence of perceptions on issues including influence of management, executive and other external parties on auditors and, content and format of the audit report. While the gap occurred in the deficient standard component was a result of differences in perceptions between auditors and users on issues such as extending the audit mandate to cover the examinations of merits of policy objectives, audit teams from different backgrounds, contracting out auditing to private audit firms and fraud detection exercise. It is also revealed that the issue on the extent of examination of economy, efficiency and effectiveness of the programmes falls under the unreasonable expectations.

1. What are the perceptions of the auditors and users of audit reports towards?

i. auditor roles and responsibilities

The users from all three groups differ with the auditors in terms of the extent of the examination of economy, efficiency and effectiveness of programmes. The users highlight that the auditors mainly concerned with the examination of economy and efficiency and that they ignore the effectiveness aspect. In contrast, auditors perceived that they adequately addressed all three issues. The analysis of audit reports suggests that auditors mainly addressed the issue of efficiency and overlooked the issue concerning economy and effectiveness of the programmes. Thus, the view of these users may be argued as reasonable. Thus, the views of these users may be argued as unreasonable.

There are differing views, especially between auditors and PAC members and ‘other users’ of the role of auditors in detecting fraud. These user groups perceive lack of audit mandate and procedures for detecting fraud and inadequate auditor’s performance as the underlying reasons for their criticism. On the other hand, auditors defended their performance by arguing that auditees are not responsible for detecting fraud. Auditees shared a similar perception to auditors and believed that auditors have adequately carried out this role.

ii. auditor independence

On the issue of auditor independence, there is a minimal difference between groups. Results of interviews show that auditors, auditees and PAC members from government parties believed that auditors have a high level of integrity and act professionally in safeguarding their independence. ‘Other users’ groups perceive that auditors lack independence due to the practice of hiring the Auditor General from retired civil servants and the large number of members of parliament representing government parties in parliament. This large number of members of parliament is perceived by users to have a psychological effect on Auditor General independence.

Findings from interviews revealed that there is a significant difference of perceptions between auditors and users as to the issue of providing management advisory services (MAS) to auditees. Auditors and auditees believed that auditors’ roles are only limited to providing suggestions and advice. PAC members and ‘other users’ perceive this practice impairs auditor independence by increasing the risk of auditors auditing their own work and establishing a close relationship with auditees.

Additionally, a significant divergence of perceptions was also explored as to the influence of management, executive and other external parties on auditors. Auditors, PAC members and auditees are optimistic that auditors are free from any influence. 'Other users' group especially, believe that auditors lack of independence as a result of social pressures and loopholes in the laws. One auditor indeed admitted the existence of pressures from external parties. This shows that the guarantee of independence under the constitution where auditors are free from direct control from any party has no effect on users' perceptions.

iii. auditor competence

Findings from interview analysis indicated that all groups expressed satisfaction on the qualifications of auditors. A divergence of opinions exists on the issues related to experience and skills of auditors. Auditees and 'other users' perceive that auditors lack technical and communication skills and inexperience compared to auditors and PAC members who perceive otherwise.

As to the issue of hiring auditors from different backgrounds, all groups perceive the idea as useful by highlighting that it can contribute to the better outputs of audit. However, there are significant differences in perceptions pertaining to the suggestion of contracting out performance auditing to private audit firms. Auditors and auditees perceive that the idea as not suitable due to confidentiality of information and auditor incompetence. PAC members and 'other users' are supportive of the idea and perceive that it can resolve the staff shortage problems and meeting reporting deadlines.

iv. auditor ethics

The finding from the interviews reveals minimal differences in perceptions between auditors and 'other users' on auditors' ethical issues. Auditors, PAC members and auditees generally, perceive that auditors are acting on public interests. Honesty and religion are factors that influence auditors' actions. 'Other users' perceive that some auditors are not acting in the public interest due to pressure from superiors and close relationship with auditee.

v. audit reporting

Generally, the user groups criticised the audit reports prepared by the auditors. PAC members, auditees and 'other users' were dissatisfied with content of the reports and perceived that the reports are not useful. The users mainly argue that there were lack of practical suggestions and recommendations, lack of benchmarking information, descriptive in nature and lack of critical analysis with outdated information. On the other hand, auditors perceive that the audit reports are useful as it emphasise both weaknesses and strength of programmes and are subject to frequent reviews by NAD's management. Few auditors admit that information in the reports are outdated and do not include benchmarking information. The analysis of audit reports reveals that none of the four audit reports analysed provide a benchmarking analysis on the performance of government agencies in implementing their programmes. The analysis also shows that these audit reports lack future-oriented recommendations.

Similar to contents of audit reports, PAC members, auditees and 'other users' perceive the format as inadequate to address the needs of users. They perceive that the audit reports as too voluminous and need to be tailored to the individual audit. Auditors disagreed with users and perceived that the format is adequate, as it has been accepted and adopted at the international level.

vi. auditing standards

Auditors perceive the present auditing standards are adequate to ensure the quality of performance audit by highlighting that auditing standards are recognised and accepted at the international level. 'Other users' perceive that auditing standards are inadequate because they are not tailored to the local environment. However, many auditees and PAC members could not provide answers, as they are unfamiliar with auditing standards.

2. What are the factors that contribute to the audit expectations gap or to the component(s) of the gap?

The findings from the interviews and analysis of audit reports suggest that the audit expectations gap exists due to several factors. These include lack of users understanding of audit mandate, auditor incompetence and inappropriateness in terms of the format and content of audit report and timeliness of audit reporting.

There is a lack of agreement and understanding between auditors and users of the current scope of the performance audit. The users perceive the existing practice of auditors to be inadequate because the auditors are more concerned with the economic and efficiency

aspect. The failure to balance the scope between the economy, efficiency and effectiveness of the programme hide the maximum benefits of the performance audit.

There is a gap in expectations regarding the reporting aspect of the audit. The users view that the format and contents of audit report are inadequate and do not fulfil their information requirements. They criticise the audit reports for being too long, concentrating on unimportant matters, lack of analysis on programme and contain impractical recommendations.

The timeliness of reporting is another factor identified that has contributed to the audit expectations gap. The users believe that the significant delays in reporting makes the audit reports meaningless. The delay is attributed to the NAD's practice not to publish performance audit reports individually and immediately after completing one audit but simultaneously with the financial audit reports in one large volume.

The necessity to discuss the users' information requirements with the auditors in order to make the report effective and meaningful has been highlighted as an important area. The absence of any formal mechanism of communication between the auditors and the users contributes to the audit expectations gap. Some of the auditors have indeed admitted this matter.

The next section will discuss some of the recommendations, which are formulated based on the findings of this study. These recommendations are considered important to provide the maximum impact of the performance audit on the government agencies and users of

audit reports. However, it is not the objective of this study to provide a detailed guideline on the implementation of the performance audit.

9.4. Recommendations

Based on the findings set out above, it is recommended that the NAD adopts the following measures as means of improving the conduct of performance audit in the Malaysian public sector.

There is still an important challenge for auditors to attract the attention of users to the output of their work. At present, both the format and the content of audit reports are under strong criticism from all user groups. In overcoming this problem, it is recommended that future audit reports to include benchmarking analysis, a statement about the auditor's evaluation of the programme and the implications of their findings on the future progress of the programme. Other than that, delays in the publication of audit reports are another area that needs to be addressed. One practical solution to this problem is to publish the audit report based on the audit project undertaken and as soon as possible after they are completed. This potentially brings the discussion at the PAC meetings up to date.

At present, the NAD utilises outside consultants from limited fields such as engineering, computing, taxation and laws. It is recommended that the NAD include consultants from various backgrounds such as academics, medical, environmentalists etc. Steps also should be taken to train and promote auditors towards acquiring the necessary skills and experience to commission the performance audit. Additionally, assistance also could be

sought from other Supreme Audit Institutions in other countries with a similar government arrangement. Alternatively, assistance from private audit firms that have developed expertise in the public sector audit can be sought to assist them to make the audit function more meaningful and constructive.

As to the problem of independence in auditing, the most appropriate solution is the auditors should avoid performing other duties such as offering management advisory services to the government agencies. It is realistic to expect that this practice could create a close relationship with auditees and therefore, impair auditor's integrity, objectivity and independence. Alternatively, the NAD may also introduce other measures to address the potential conflicts such as disclosing the types of services offered to auditees and clearly define those management advisory services that compromising the integrity of the audit.

Education may also play a role in addressing the expectations gap in relation to unreasonable/misunderstanding of the gap, which was found in this study. The inability of some participants to answer questions related to the performance audit was a result of their lacking knowledge of the performance audit. Therefore, the NAD should offer programmes or publicities to generate greater awareness on the performance audit. A study by Pierce and Kilcommins (1996) in the private sector context showed that education contributes to a positive impact on users' understanding of auditor's roles and responsibilities and on audit regulations.

Finally, it is recommended that the NAD establishes the formal communication mechanisms such as organising forums and dialogue to obtain feedback from user groups on the conduct of performance audits. This formal communication channels would allow

auditors to identify users' information needs which in turn would enable them to fulfill their reporting responsibilities more effectively.

The next part of the chapter focuses on the contributions of this study, its limitations and directions for future research.

9.5. Contributions of the Study

This study was undertaken with the intent to contribute to the current auditing literature by concurrently examining the issues related to the audit expectations gap and the performance audit. The motivating aim was to highlight the perceptions of auditors and users on the performance audit functions and audit process in the Malaysian public sector. The study was directed towards the implementation of a performance audit in the developing country with a different auditing environment from developed countries. It was also the wish of the researcher to assess the needs of users in the Malaysian public sector with respect to the performance audit. This study identifies components of the gap and factors that cause the audit expectation gap in the Malaysian public sector. In particular, this study contributes to auditing literature into three main areas.

Firstly, it makes an original contribution to auditing literature on the audit expectations gap in general, by exploring components of the gap in the public sector. Based upon the audit expectations gap model introduced by Porter (1993), this study manage to identify the related components of the gap to other audit concepts. The result can serve as a basis for studying the audit expectations gap and/or developing a better understanding of the components of the gap in the public sector.

Secondly, the findings reported in this study provide evidence concerning the audit expectations gap in the context of performance auditing in non-Western countries. A review of relevant literature showed that past studies investigating the perceptions of auditors and users have been typically conducted in Europe where the political and socio-economics factors are significantly difference from developing countries. As such, these studies provide limited support for the generalisability of the research findings. This study contributes to the current literature by providing preliminary evidence on the perceptions of auditors and users towards performance audit functions and audit process in a very different environment – Malaysia. To the researcher’s knowledge, there has been no study in the past that explores the perceptions of auditors and users in the context of the Malaysian public sector. The present study may lead researchers to a better understanding of the relevancy of these factors on the perceptions of auditors and users of audit reports.

The results of this study are also useful because it provides evidence of issues that have caused the divergence of perceptions between the auditors and users of audit reports. It was discovered that some issues of the audit expectations gap in the public sector are not much different from the private sector. Referring to the issues such as providing management advisory services, fraud detection and reporting exercise, the adoption of auditing standards without considering the local needs are the reasons for the divergence of views. This indicates that the practices of NAD are following the private sector auditing style.

Thirdly, the present study also provides new information on the practice of performance audit in developing countries in general and in Malaysia in particular. Evidently, the performance audit conducted in Malaysia is still experiencing some basic problems such as

timeliness of reporting, inadequacy of auditor's skill and experience, and communication with users. Other than that, the present study also found the broad pictures of the NAD importing practices of auditing from other nations or those practices recommended by international organisations. This can be seen from its audit mandate, the adoption of auditing standards, and format of audit reports.

This study also contributes to new information for the better practice of performance auditing in Malaysia. It offers evidence to the NAD on a wider picture of the acceptance and usefulness of the performance audit as a monitoring mechanism, in safeguarding accountability and improving the performance of government agencies. The variation of views among groups shows that ensuring the performance audit functions and audit process possesses the characteristics set out in the performance audit guidelines is important. Thus, the significant challenge this thesis found is the need for the NAD to introduce practice that result in better characteristics of performance auditing. This would include actions to address an inadequate audit mandate, perceived limited use of audit reports, misunderstanding of the auditor's roles and responsibilities, and perceptions of a lack of auditor competence and independence.

9.6. Limitations of the Study

There are a number of limitations associated with this study. The audit expectations gap is a vast topic and each of the concepts contributing to the gaps can be a dissertation itself. This study aims to address as many possible questions at a broader level, rather than in depth, on the particular audit concepts to give insight to the NAD of the present state of the performance audit functions and its audit process.

The latest audit report available during the conducted of the study was published in 2003. In the researcher's view, this has placed some constraints on the participants especially the PAC members and auditees because they may tend to forget the issues raised in the audit reports. As a result, they are unable to provide objective answers.

From the researcher's experience in this research, interviews should cover a large number of participants with a balanced distribution among the auditors, PAC members, auditees and other users. This would add more credibility to the results. However, due to parliamentary sessions, inability to get approval from some heads of government agencies and unfamiliarity of participants with performance auditing, a large number of audit report users was impossible.

Finally, a non-response bias may be present in the results. This non-response bias occurs due to refusal of targeted groups such as PAC and auditee groups to participate in this study. For example, some of the PAC members and government agencies did not respond to the call for participation or disapproved the researcher's request to interview them or the representative from the agency. Subsequently, the answers or perceptions of these non-respondents may differ from those who participated in this study. Thus, the results relating to the response of the PAC members and auditees may not reflect the actual perceptions of the non-participating PAC members and auditees.

9.7. Suggestions for Future Research

Several pertinent issues that are worthy for further study have been identified from the findings presented in this thesis. As mentioned earlier, this study employs qualitative methods with the aims to explore and identify the existence of the audit expectations gap in the Malaysian public sector. Future studies could employ quantitative techniques such as questionnaires to investigate issues associated with the audit expectations gap. For example, questionnaires can be used to measure the seriousness of divergence in perceptions among the participants or to validate findings of this study.

Furthermore, research also could be carried out on another type of audit performed by the NAD. This could include the financial statements auditing which is also mandatory and to be considered important by the government agencies. A longitudinal study may also capture the changes (or lack thereof) in auditors as user views over a long period considering the changes undergone by the performance audit in terms of its audit scope and auditing guidelines.

Moreover, with the current trend towards the harmonisation of auditing standards and guidelines, further research into the usefulness and adequacy of auditing standards and guidelines is worthwhile. Considering that the objective of performance audit is to provide the information on the status of the activity or programme, present auditing standards and guidelines should be examined to ensure that they truly assist in the generation of audit report and audit process. The finding of this study shows that there is a need for more research on the effect of auditing standards and guidelines on the conduct of performance audit.

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APPENDIX 1: AN INTERVIEW GUIDE

General Introductory Questions

1. Can you describe your job?
2. Can you describe what you understand with the audit function?

Audit Scope

3. What do you understand about the performance audit and its' scope?
4. a) What are the intended objectives of performance auditing? b) Do you think these objectives are achieved?
5. To what extent do you conduct the effectiveness part of performance auditing?
6. Should auditors be required to question the merits of the policy?
7. a) Do you think that it is the responsibility of auditors to detect fraud? b) Should auditors be required to report on the fraud? Please explain your view.

Auditor Independence

8. During auditing, do you experience any influence from management, politicians or other outside parties?
9. Do you believe auditors offering help to auditees (providing management advisory services) would impair the independence or perceived independence of auditors? If yes, could you explain how this could affect the independence?

Audit Reporting

10. Do you think that users actively use the information revealed in performance auditing reports?
11. Do you think the present format of a performance audit report is adequate to meet user's requirement?
12. Do you think the present content of a performance audit report format is adequate to meet the user's requirement?

Auditor Competence

13. a) What educational/qualifications/ traits do the auditors have? b) What additional skills (if any) are needed by auditors?

14. Does the NAD use the services from external experts/consultants and if so, how and under what circumstances?

15. What training programs are available to auditors? Is it compulsory to them?

Auditing Standards

16. Do you think that the existing audit standards, guidelines and laws are adequate to ensure performance auditing?

Accountability

17. Who do you think auditors are accountable to?

18. Who uses the performance audit reports?

19. Do you use any mechanism to determine the user's information requirements?

20. a) Who determine what topic the auditors should investigate? b) Are you aware of any case where outside parties were involve?

Auditor Ethics

21. Do you think auditors are acting on public interest or on personal interest?

APPENDIX 2: SUMMARY OF INTERVIEWS

Summary of Interviews: The PAC Members

Issues	PAC 1	PAC 2	PAC 3
Objective of the performance audit	The objective was to provide an assurance that the money and resources approved by the parliament were spent wisely and prudently according to its purpose. It also aimed to assess the ability of the programme to achieve its target.	No comment. This PAC member was not aware of the objective of performance auditing.	The purpose was to assess the extent to which the government agencies have carried out the projects efficiently and effectively. At the end of the day, it wanted to ensure that the government officers were accountable for their decisions.
Performance audit conducted by auditors met the objective	The objectives have not been met because the auditors have failed to assess the effectiveness of the particular programme. Auditors should focus more attention on assessing the output of the programme.	No comment. This PAC member was not aware of the objective of performance auditing.	The intended objectives were not always met due to the failure of auditors to express their true views on certain issues.

Extending the audit mandate to question the merits of the policy	Disagreed because the Auditor General should not get involved with the policy of the government. However, the Auditor General should not be stopped from commenting on the implementation of the policy.	Disagreed because the responsibility should be conducted by another agency.	Agreed because only the NAD could provide an independent review on the policy implemented by the government. The Audit Act needed to be changed to accommodate this new mandate.
Fraud detection and reporting exercise	The level of detection needed to be improved. There were cases where frauds and mismanagement were highlighted by the media after audit reports were published.	The Auditor General had performed well for these tasks.	The Auditor General needed to be serious in conducting these roles by establishing proper procedures and training for staff.
Providing management advisory services (MAS)	Auditors should not get involved with the implementation of the programme either directly or indirectly.	It was not an issue because the Auditor General was aware of the bottom line of what should or should not be done.	Auditors could provide the services, as long as they were present to offer help and provide advice and suggestions.
Influence from the management, executive or external parties	The Auditor General was under the influence of the executive.	The Auditor General was free of influence from any party.	The Auditor General was under the influence of the executive.
Access to information	The Auditor General had access to all sources of required information.	- same as PAC 1 -	Auditors might have limited access to some information in certain ministries such as those headed by the Prime Minister. Auditors were not willing to report this problem for fear of backlash.

Qualification and skills	Auditors were well qualified, experienced and had the necessary skills to carry out performance auditing.	- same as PAC 1 -	Some auditors did not meet the minimum qualification. There was no problem with the skills as they could be developed over the years.
Audit team from different backgrounds	Agreed because with a range of knowledge and professional expertise, the audit team could deal with the auditee's problems more effectively and suggest more practical recommendations.	Agreed because the auditors were auditing a variety of activities involving different fields. Auditors with relevant backgrounds could provide in-depth perspectives on the issue investigated.	- same as PAC 2 -
NAD or private audit firms	Agreed with the idea of using private audit firms because it would accelerate the auditing process of government agencies. Thus, more agencies could be audited.	The Auditor General could hire private audit firms to perform auditing in certain areas to expedite the process. Monitoring mechanisms should be in place to ensure the quality and confidentiality of information.	- same as PAC 2 -
Contents of audit reports	Information in the audit reports was not useful because they only listed the problems, the efficiency and the delays. The auditors only recorded and described the activity of the agency.	The audit reports have been written in a clear and transparent manner. They have adequately informed and addressed the interests and concerns of the PAC.	Delays in the publication of the audit reports made the issues outdated and this was one of the reasons that audiences were not interested to read them.

Format of audit reports	The reports needed an executive summary of the audit for readers to get a first impression of the issues or problems.	The present format was adequate and modification was not necessary.	The Auditor General should produce a short version of audit reports to attract more people to read them.
Adequacy of auditing standards	No comment due to limited knowledge on auditing standards.	The present auditing standards were adequate. However, the standards were not really important as they did not guarantee the Auditor General's independence.	No comment due to limited knowledge on auditing standards.
To whom auditors are accountable	Parliament	Parliament and the government	Parliament
Determination of issues for auditing	The Auditor General and the PAC	The Auditor General	The Auditor General and the PAC
Formal mechanism to communicate information requirement	Feedback or comments were communicated to the Auditor General during the PAC meetings.	- same as PAC 1-	- same as PAC 2 -

Issues	PAC 4	PAC 5	PAC 6
Objective of the Performance Audit	No comment as this PAC member was not aware of the objective of performance auditing.	The objective was to assess the ability of the government agencies to manage the resources voted by the parliament in an efficient and effective manner.	The objective was to improve the agency's performance in managing the project by examining the efficiency and effectiveness of its implementation.
Performance Audit conducted by auditors met the objective	No comment as this PAC member was not aware of the objective of performance auditing.	The audits met the objective because the Auditor General highlighted many issues such as overspending and procedural inappropriateness.	- same as PAC 5 -
Extending the audit mandate to question the merits of the policy	Disagreed. It was under the responsibility of another government agency.	- same as PAC 4 -	Disagreed because the audit should focus only on the outcome of the programme. Furthermore, the NAD had limited time and resources to take additional responsibility.

Fraud detection and reporting exercise	The Auditor General had performed well for these tasks. There had been increasing efforts by the Auditor General to improve these roles.	- same as PAC 4 -	The Auditor General has performed well in terms of reporting fraud. There was a case of irregularities where the Auditor General referred the case to the Anti Corruption Agency. However, formal procedures need to be established for detecting fraud.
Providing management advisory services (MAS)	It was not an issue as long as different auditors conducted the audit.	This role would provide opportunities for auditors to be familiar with the operations of auditees. In turn, the role would increase the effectiveness of auditing.	It was reasonable for auditors to only provide advice and it would be a different case if auditors were involved in decision making.
Influence from the management, executive or external parties	The Auditor General was free from the influence of any party.	- same as PAC 4 -	- same as PAC 5 -
Access to information	The Auditor General had access to all sources of required information.	- same as PAC 4 -	- same as PAC 5 -
Qualification and skills	Auditors were well qualified, experienced and had the necessary skills to carry out performance auditing.	All auditors were well qualified. In terms of skills, auditors must have a strong knowledge of public sector institutions and their environments.	All auditors were well qualified. In terms of skills, the Auditor General needed auditors who would be able to analyse risky information as well as assist in preventing and detecting fraud.

<p>Audit team from different backgrounds</p>	<p>Auditors with other qualifications such as engineers and fraud specialists would have different views on certain problems and could suggest suitable approaches to tackle the problems.</p>	<p>It would be ideal if the audit team came from different backgrounds. The fact that the audit involved different aspects of a programme, a wide range of knowledge and professional expertise increased the effectiveness of the audits.</p>	<p>- same as PAC 5 -</p>
<p>NAD or private audit firms</p>	<p>This approach could overcome the problems regarding the shortage of staff at the NAD. The Auditor General did not have enough resources to audit all government agencies every year.</p>	<p>The private audit firms were unsuitable because they were profit-oriented. There was a possibility that the accountability of private audit firms was not to the public but to the auditees or the government.</p>	<p>Agreed because the NAD could utilise the expertise of private audit firms in certain areas in which they have limited resources to perform the audits.</p>
<p>Contents of audit reports</p>	<p>The audit reports had adequately informed and addressed the interests and concerns of the PAC.</p>	<p>The present audit reports disclosed too many details of the programmes. This could confuse the readers and distract their attention from the audit's opinion and conclusions.</p>	<p>In describing shortcomings in the performance of the programme, the reports should include the explanation of the auditee.</p>
<p>Format of audit reports</p>	<p>The format should allow some degree of flexibility according to the audit findings such as the length of the audit report.</p>	<p>The present format was adequate and modification was not necessary.</p>	<p>The reports needed an executive summary of the audit for readers to get a first impression of the issues or problems.</p>

Adequacy of auditing standards	No comment due to limited knowledge on auditing standards.	- same as PAC 4 -	Auditing standards and laws needed to be improved to address issues of fraud and irregularities.
To whom auditors are accountable	Parliament, auditee and the government	Parliament, auditee and the government	Parliament and the government
Determination of issues for auditing	The Auditor General	The Auditor General and the PAC	The Auditor General
Formal mechanism to communicate information requirement	Feedback or comments were communicated to the Auditor General during the PAC meetings.	- same as PAC 4 -	- same as PAC 4 -

Issues	PAC 7	PAC 8
Objective of the Performance Audit	The objective was to provide the Parliament with information on shortcomings in management measures and to suggest improvements for the benefit of the agency and the public.	The objective was to study the performance of the government department in terms of its efficiency and effectiveness in implementing the activities.
Performance Audit conducted by auditors met the objective	The audits met the objective because the Auditor General managed to identify and highlight not only the weaknesses but also the strengths of the programme.	- same as PAC 7 -
Extending the audit mandate to question the policy	Agreed as the NAD was the most independent agency in Malaysia.	Agreed. This responsibility would provide an added value to users by providing another perspective on the choices of policies and their consequences.
Fraud detection and reporting exercise	More efforts from auditors were needed for detecting and reporting fraud. Many cases showed that the monitoring mechanisms failed. The auditors should discover this before they occurred.	The Auditor General had no expertise in detecting fraud and cooperation between government enforcement agencies is essential.

Providing management advisory services (MAS)	MAS would improve the quality of the audit because with the auditors' in-depth knowledge of the auditee, they were in an ideal position to comment on the management's efficiency and effectiveness or otherwise.	- same as PAC 7 -
Influence from the management, executive and external parties	The Auditor General was free from the influence of any party.	- same as PAC 7 -
Access to information	The Auditor General had access to all sources of required information.	The Auditor General had access to all sources of required information. No complaints were made to the PAC up till now.
Qualification and skills	All auditors, especially the senior auditors should be a person with vast experience and strong project management and development skills.	Auditors were well qualified, experienced and had the necessary skills to carry out performance auditing.
Audit team from different backgrounds	Agreed because auditors with expertise in project management could provide different perspectives on the issues discovered.	Auditors who came from other disciplines and worked together on the same issue would make differences on the audit findings because of their skills and knowledge.

NAD or private audit firms	Some of the private audit firms already have the experience of financial auditing in the government sector and were thus familiar with the government environment. The Auditor General could choose private audit firms with good track records.	The Auditor General could utilise the expertise of private audit firms in certain areas where he strongly considers himself unfit to do it.
Contents of audit reports	The reports highlighted more information on the activities rather than on recommendations or findings. Additionally, recommendations should suggest improvements that are needed rather than how to achieve them.	The contents were very good with details and progress of the activity. However, the reports did not compare the activity audited with another activity audited earlier or done by other agencies. Further action is needed to ensure audit reports are published as soon as possible.
Format of audit reports	The reports were not user-friendly. Tables and figures could be used to present the information clearly.	The present format was adequate and modification is not necessary.
Adequacy of auditing standards	No comment due to limited knowledge on auditing standards.	- same as PAC 7 -

To whom auditors are accountable	Parliament	Parliament and the government
Determination of issues for auditing	The Auditor General	The Auditor General and the PAC
Formal mechanism to communicate information requirement	Feedback or comments were communicated to the Auditor General during the PAC meetings	- same as PAC 7 -

Summary of Interviews: Auditees

Issues	Auditee 1	Auditee 2	Auditee 3
Objective of the Performance Audit	The objective was to improve the agency's performance in managing the project by examining the efficiency and effectiveness of its implementation.	The objective was to determine if the project carried out by the auditee was done economically, efficiently and in an effective manner.	The objective of the audit was to determine if the programme implemented by the agency was operating as planned, following procedures and achieving the target.
Performance Audit conducted by auditors met the objective	The audit achieved the objective based on the fact that the agency could save budget on the payments of unnecessary items.	The audit achieved the objective because the agency had received additional staff and funding based on the recommendation made by the Auditor General.	The audit achieved the objective because the Auditor General managed to identify the weaknesses in the implementation of the programme such as lack of a monitoring system, although the planning was very good.
Extending the audit mandate to question the merits of the policy	Agreed because auditors had the expertise in comparison to other agencies.	-same as Auditee 1 -	-same as Auditee 1 -

Fraud detection and reporting exercise	The Auditor General had performed these tasks very well.	-same as Auditee 1 -	-same as Auditee 1 -
Providing management advisory services (MAS)	The provision provided no effect on the auditors' independence because the auditors conducting the audits were different from those offering advisory services.	Auditors should avoid from providing MAS to auditees as this practice could provide the opportunity for building personal relationships among those involved in auditing.	Auditor independence was not impaired because the auditors normally only provide advice to auditees and were not involved in decision-making.
Influence from the management, executive and external parties	Auditors were not under the influence of any party	-same as Auditee 1 -	-same as Auditee 1 -
Access to information	Most of the government agencies were transparent in providing information to the Auditor General and thus the auditors did not face any problems in assessing the sources of information.	All the auditors had access to the required information.	The Auditor General had the authority to access and examine all the documents. Normally, auditees gave their full cooperation to the auditors.
Qualification and skills	All auditors were well qualified, but they were lacking knowledge about the organisation.	Auditors were well qualified, experienced and had the necessary skills to carry out performance auditing.	All auditors had good paper qualifications. However, they needed to improve their public relation skills in terms of dealing with people of different ranks, age, profession and social status.

<p>Audit team from different backgrounds</p>	<p>The assessment would become more effective as the team consisted of those who are experts in their fields. The comment and suggestion to auditees would be more constructive and relevant.</p>	<p>Agreed because auditors from other fields could contribute to relevant suggestions in audit reports.</p>	<p>-same as Auditee 2 -</p>
<p>The NAD or private audit firms</p>	<p>It was unsuitable because the private auditors were not as good as the auditors at the NAD. They were not well-trained and lacked the understanding and awareness of the public sector environment.</p>	<p>The use of private sector auditors was practical as long as the Auditor General could control the quality of the audit.</p>	<p>Private sector auditors could serve certain areas which do not require close supervision by the NAD or projects that do not involve national security.</p>
<p>Contents of audit reports</p>	<p>The audit report was not really useful in decision making due to its late publication. In some cases, the report findings were difficult to defend due to the inadequacy of the information.</p>	<p>The contents of the report were generally adequate and useful. The auditee used the information in decision making and improved weaknesses identified in the audit report.</p>	<p>The report was descriptive with the explanation of what the auditee had done. The agency was relying on the internal reports for decision-making.</p>
<p>Format of audit reports</p>	<p>Some sections in the audit reports needed to be presented in point form for easy recognition by readers.</p>	<p>The present format was adequate and modification is not necessary.</p>	<p>-same as Auditee 2 -</p>

Adequacy of auditing standards	Auditee declined to comment due to limited knowledge on auditing standards.	-same as Auditee 1 -	-same as Auditee 1 -
To whom auditors are accountable	Parliament and the government	-same as Auditee 1-	Parliament
Determination of issues for auditing	The Auditor General	-same as Auditee 1 -	-same as Auditee 1 -
Formal mechanism to communicate information requirement	No formal mechanism existed. The agency usually called the NAD for further information.	-same as Auditee 1 -	-same as Auditee 1 -

Issues	Auditee 4	Auditee 5	Auditee 6
Objective of the Performance Audit	The objective was to provide assurance that the programme had been implemented satisfactorily by the agencies.	The objective was to see whether there was any wastefulness, breach of regulations or financial impropriety in the implementation of projects by the government agencies.	The objective was to check whether the project implemented by the auditee was done economically, efficiently and in an effective manner.
Performance Audit conducted by auditors met the objective	The audit met the objective because the Auditor General managed to identify the shortcomings in the projects such as money overspending on purchasing of raw materials.	The audit achieved the objective because the report addressed the auditee's problems such as understaffing and funding problems and non-adherence to the procedures.	The audit achieved the objective because the report highlighted the problems and the successes in every stage of the projects.
Extending the audit mandate to question the merits of the policy	Agreed because auditors had the expertise in comparison to other agencies.	- same as Auditee 4 -	- same as Auditee 4 -
Fraud detection and reporting exercise	It was not reasonable to expect auditors to disclose and report frauds every time they do the audit. The failures or weaknesses of the project might be due to poor implementation and monitoring mechanisms by auditees.	The Auditor General had performed these tasks very well.	Auditors only pursued the investigation if there was a sign of fraud.

Providing management advisory services (MAS)	Auditors could provide the services, as long as they were present to offer help and provide advices and suggestions.	- same as Auditee 4 -	Auditor independence was not impaired because the auditors normally were not involved with decision-making. All decisions are made by the management.
Influence from the management, executive and external parties	Auditors were not under influence from any party	- same as Auditee 4 -	- same as Auditee 4 -
Access to information	Auditors received full cooperation from auditees and thus had access to all sources of information.	- same as Auditee 4 -	- same as Auditee 4 -
Qualification and skills	Auditors were lacking experience because they audited the activities which were outside their fields.	Auditors were well qualified but were lacking in experience, especially for junior auditors.	Auditors were well qualified, experienced and had the necessary skills to carry out performance auditing.
Audit team from different backgrounds	Accounting and auditing knowledge alone were not enough. Performance auditing required auditors who were also knowledgeable in administrative and technical sides.	Auditors from other disciplines were useful because it would provide variable expertise and opinions, especially when auditing the programmes that involved highly technical aspects.	Agreed because auditors from other fields could contribute to relevant suggestions in audit reports.

NAD or private audit firms	It was unsuitable because the private auditors did not understand the operations and environment of public sector agencies.	This step would increase the number of projects that could be audited as the Auditor General had limited staff to audit all government agencies every year.	It was unsuitable because the private auditors did not understand the operations and environment of public sector agencies.
Contents of audit reports	The analysis should be in depth with explanation of what had happened and its implications.	The most part of the report only highlighted failures of this agency and auditors did not attempt to identify the reasons for such failures. Furthermore, the report should accommodate the agencies' responses to the audit findings.	The information was not useful to the agency because it just covered what the agency had done. The report needed to include the evaluation of the current policies at any one agency.
Format of audit reports	The reports were not user-friendly. Tables and figures could be used to present the information clearly.	The reports needed to contain an executive summary of the audit for readers to get a first impression of the issues or problems.	Some sections in audit reports needed to be in point form for easy recognition by readers.
Adequacy of auditing standards	Auditee declined to comment due to limited knowledge on auditing standards.	- same as Auditee 4 -	- same as Auditee 4 -
To whom auditors are accountable	The government	Parliament and the government	The government

Determination of issues for auditing	The Auditor General	The Auditor General	The Auditor General
Formal mechanism to communicate information requirement	Feedbacks or comments were communicated during the exit conference.	No formal mechanism existed. The agencies usually phoned the NAD or used emails (for official record).	No formal mechanism existed.

Summary of Interviews: Other Users

Issues	Journalist 1	Journalist 2	Academic 1
Objective of the Performance Audit	The objective was to ensure there would be no wastefulness, mismanagement and the accounts of the agencies were prepared accordingly.	The objective was to ensure there was no mismanagement or abuse of power by the management in the auditee's operation.	The objective was to assist managers of the government agencies to improve administrative aspects and operations of government projects.
Performance Audit conducted by auditors met the objective	Performance audits carried out did not meet the objectives because of auditor's failure to uncover irregularities and mismanagement in the audited government agencies.	Most of the time, the audits failed to meet the objective because the Auditor General was unable to identify the responsible party for such inappropriateness in managing the public money.	The audits met the objective, although not always because the auditors managed to identify the shortcomings in the implementation and monitoring stages and suggest actions to be taken for improving the programmes.
Extending the audit mandate to question the merits of the policy	Agreed because there was a need to evaluate the policies to ensure that the policy introduction was made in transparent and openness. This could increase public confidence on the policies implemented by government agencies.	Agreed because by assessing the merits of the policy, the public could evaluate the extent of accountability of government agencies in spending public monies.	The mandate should not be extended because the power to examine the merits of policies are usually related to political decisions and thus undermining the Auditor General's impartiality.

<p>Fraud detection and reporting exercise</p>	<p>Auditors were not serious in detecting fraud and took this task for granted. Previous cases showed that auditors failed in many occasions.</p>	<p>Auditors were not performing well for these tasks because audits had been merely the practice of ticking checklist and not on checking on compliance.</p>	<p>Auditor performed well on these tasks. The responsibility to detect fraud cannot be left alone to the Auditor General. It would be a joint responsibility between the auditee and the Auditor General as the fraud remained unknown until later time.</p>
<p>Providing management advisory services (MAS)</p>	<p>This provision should be avoided because the frequent contact with auditees might weaken the Auditor General in making an objective and impartial judgement.</p>	<p>The provision would not be good for auditing and also the Auditor General because it could create a perception that the Auditor General was not independent.</p>	<p>The practice of providing services other than auditing should not be encouraged because it would potentially impose the limit on the disclosure of issue or enquiry by the auditors.</p>
<p>Influence from the management, executive or external parties</p>	<p>Auditors were under influenced of politicians.</p>	<p>- same as Journalist 1 -</p>	<p>Auditors were under influenced of the executive.</p>
<p>Access to information</p>	<p>Auditors might have limited access to some information in certain ministries such as those headed by the Prime Minister. Auditors would not be willing to report this problem for fearing of backlash.</p>	<p>- same as Journalist 1 -</p>	<p>Auditors received full cooperation from auditees and thus had access to all sources of information.</p>

Qualification and skills	Auditors were well qualified but needed to improve their skill in detecting suspicions of fraud.	Auditors were well qualified but must also have strong interpersonal skills to interact with a diverse group of people.	Auditors were well qualified but some of them were lacking problem-solving skills.
Audit team from different backgrounds	The audit team comprising people from different disciplines normally had different views about the issues arisen and methods in addressing those issues. Thus, it encouraged positive feedback to the audit.	Auditors from other backgrounds reduced the possibility of defects in analysing audit findings.	The audit team consisting of professionals such as lawyers, IT experts, and academics could provide important perspectives in the understanding and assessment of a different aspects of the programme.
NAD or private audit firms	The output of audits might not be objective because private audit firms might avoid from criticising some aspects of performance due to fear of losing the contract.	Agreed with the idea of using private audit firms because it would accelerate an auditing process of government agencies. Thus, more agencies could be audited.	The Auditor General could utilise the expertise of private auditors in certain areas where he considered unfit to do it.
Contents of audit reports	Some of the audit findings did not reflect the significance of the issues reported.	The reports highlighted more information about the activities rather than on recommendations or findings.	There are a room for improvement such as incorporating comparisons with other well-performing organisations as well as standards used by auditors general in other jurisdictions.

Format of audit reports	The format should be flexible and acted as a guideline only.	The length of audit reports should be reasonable and not longer than necessary to convey the Auditor General's opinions and suggestions.	The report was normally thick and this was not motivating for users to read. A summary of important points would be necessary.
Adequacy of auditing standards	The present auditing standards were inadequate to meet user information requirements because they were based on the standards set in western countries.	Good auditing standards did not mean good audit reporting.	There was still some aspect of improvement such as the standards needed to be elaborate on the auditing methods used and its implications.
To whom auditors are accountable	Parliament	- same as Journalist 1 -	- same as Journalist 1 -
Determination of issues for auditing	The Auditor General and the government	The Auditor General	The Auditor General
Formal mechanism to communicate information requirement	No formal mechanism existed.	- same as Journalist 1 -	- same as Journalist 1 -

Issues	Academic 2	Politician 1	Politician 2
Objective of Performance Audit	The objective was to examine whether the government policy had been implemented by the relevant agency in an efficient and effective manner. The audit aimed to improve public administration by suggesting improvement.	The objective was to check whether there was wastage of government resources such as irregularity, malpractice or inappropriate spending.	The objective was to see whether there was a breach of regulations or financial impropriety in the implementation of the project by the government agencies.
Performance Audit conducted by auditors met the objective	The objective was not always achieved because the audits, mainly concern with the amount of resources spent, etc and not on the outcome of the programme.	The objective was not fully achieved because in some cases the Auditor General was unable to disclose the irresponsible officers for such weaknesses in the programme.	The audits achieved the objective because the reports were able to recognise the wastages made by the agencies.
Extending the audit mandate to question the merits of the policy	Agreed. The performance audit would become more relevant as the effectiveness of programmes to some extent was related to policy decisions.	Agreed because the Auditor-General having the resources and expertise to carry out this mandate.	Agreed because it would allow the public to assess the accountability of government agencies before deciding to introduce such a policy.

Fraud detection and reporting exercise	Auditors only pursued the investigation if there was a sign of irregularities. There was no such requirement for auditors to focus on fraud or procedures for them to follow. The Auditor General needed to establish new procedures for detecting fraud.	The Auditor General was not giving adequate attention to fraud detection. Mismanagement frequently appeared and was exposed in the media after several years after audit.	- same as Politician 1 -
Providing management advisory services (MAS)	The provision had not necessarily impaired the auditor's independence. But it could place the Auditor General at risk because the public would see him as a patrol to the agency.	The provision of MAS was not needed as the agency could consult other government agencies for the advice.	Disagreed because it could affect the image of the Auditor General as an independent body.
Influence from the management, executive and external parties	Auditors were not totally independent especially from the executive.	- same as Academic 2 -	Auditors were under influenced from politicians
Access to information	Auditors received full cooperation from auditees and thus had access to all sources of information.	Auditors might had limited access to some information in those agencies headed by prominent leaders.	Auditors received full cooperation from auditees and thus had access to all sources of information.
Qualification and skills	No problem with the qualification. However, auditors needed to have good critical analysis as they had to give correct decisions at right time.	Auditors must be strong in analytical thinking as they needed to evaluate the performance measurement and compare them with standards set elsewhere.	All auditors had good qualification but some of the junior auditors were lacking experience because they depended on the checklist in carrying out the audit.

<p>Audit team from different backgrounds</p>	<p>Auditors coming from other disciplines and work together on the same issue would make up the differences on the audit findings because of their skills and knowledge.</p>	<p>It was the right time for the Auditor General to hire people from other disciplines. This was because performance auditing had expanded to include various activities and types of institution and. The unique strengths of each discipline increased effectiveness of audit.</p>	<p>- same as Politician 1 -</p>
<p>NAD or private audit firms</p>	<p>NAD could utilise private audit firms in certain areas which required high technical expertise.</p>	<p>It was not suitable because the private auditors did not understand the operations and environment of public sector agencies.</p>	<p>Outsourcing to private auditors was a practical solution as the NAD had limited staff to audit all the government departments.</p>
<p>Contents of audit reports</p>	<p>Most of the audit reports provided balancef reporting between strengths and weaknesses of the programme, which was fair to auditee. However, the audit reports also were not sufficient to provide information to the management to take decision, especially on the effectiveness of the outcome of the programmes.</p>	<p>The present audit reports often mentioned about non-compliance of procedures and regulations. Little attempt had been taken by auditors to identify the reasons for such a failure and the impact on the project.</p>	<p>The report suffered from lack of cost information and did not compare the same activity conducted by another agency. As a result, the auditee would not be able to know the extent of achievement in comparison to another agency.</p>

Format of audit reports	The length of the audit report is important. A report which is too long discouraging the users to read.	- same as Academic 2 -	The present format was adequate and modification was not necessary.
Adequacy of auditing standards	The present standards tend to be brief. The standards needed to provide further elaboration such as on methodologies in carrying out audits, so that they were not subjected to individual interpretation.	Auditing standards and guidelines needed to be adapted to local environment.	No comment due to limited knowledge on auditing standards.
To whom auditors are accountable	Parliament	- same as Academic 2 -	- same as Academic 2 -
Determination of issues for auditing	The Auditor General	The Auditor General and the PAC	- same as Politician 1 -
Formal mechanism to communicate information requirement	No formal mechanism existed.	- same as Academic 2 -	- same as Academic 2 -

Issues	Politician 3	Politician 4
Objective of the Performance Audit	The objective was to ensure that the government departments follow the procedures and regulations when implementing the projects.	The objective was to examine whether government resources such as human power, money and material were used properly and accordingly as per plan, procedures and statutory requirements.
Performance Audit conducted by auditors met the objective	The audit achieved the objective because the report highlighted the problems and the successes in every stage of the project.	- same as Politician 3 -
Extending the audit mandate to question the merits of the policy	Disagreed as it was the minister who was responsible for the policy formulation and not a public servant.	Disagreed. It was too late for auditors to assess such an arrangement and suggest improvement as the implementation had taken place.
Fraud detection and reporting exercise	The level of detection needed to be improved. There were cases where frauds and mismanagement were highlighted by the media after audit reports were published.	The Auditor General had performed these tasks satisfactorily.

Providing management advisory services (MAS)	The Auditor General could provide MAS, but he needed to ensure that it did not influence his independence.	The Auditor General could provide the services, as long as they were present to offer help and provide advice and suggestions.
Influence from the management, executive and external parties	The Auditor General was not under influence from any party. He was free to make the decision based on the audit findings.	- same as Politician 3 -
Access to information	Auditors received full cooperation from auditees and thus had access to all sources of information.	- same as Politician 3 -
Qualification and skills	Auditors were well qualified and they needed to be critical in analysis.	Auditors were well qualified, experienced and had the necessary skills to carry out performance auditing.
Audit team from different backgrounds	A different point of view would improve the quality of investigation.	Agreed because it was impossible to find accounting graduates that were knowledgeable in other areas as well.

NAD or private audit firms	Agreed because they had experiences in conducting financial audits of the government. Auditors only needed to aware the political nature of the environment.	It was unsuitable because the private auditors did not understand the operations and environment of public sector agencies.
Contents of audit reports	The contents were outdated and performed in a routine way with had not much emphasis on the impact of the project.	The contents of the report were generally adequate and useful. It reported the degree to which progression and completion of data was gathered, analysed and to inform strategies used by the particular agency.
Format of audit reports	A summary of main issues and recommendations was necessary.	The present format was adequate and modification is not necessary.
Adequacy of auditing standards	The present auditing standards were adequate. The Auditor General and the NAD were constantly updating auditing standards to make it in line with international standards.	No comment due to limited knowledge on auditing standards.

To whom auditors are accountable	Parliament and the government	- same as Politician 3 -
Determination of issues for auditing	The Auditor General	The Auditor General and the PAC
Formal mechanism to communicate information requirement	No formal mechanism existed.	- same as Politician 3 -

Summary of Interviews: Auditors

Issues	Auditor 1	Auditor 2	Auditor 3
Objective of the Performance Audit	The objective of performance audit was to ensure that the money and resources approved by the parliament were utilised efficiently and effectively by the respective government agencies.	The objective was to review the performance of the government agencies in implementing the programme for a given period.	The objective of performance audit was to assess the performance of a government programme in order to provide information to improve public accountability and facilitate decision making of auditees.
Performance audit conducted by auditors met the objective	The audit met the objective. The government approved additional resources such as extra staff and funds for many agencies based on the issues highlighted in the Auditor General's audit reports.	The objective of audit was not always met because of failures of auditees to provide documents requested.	The audit met the objective based on the fact that the NAD managed to identify and highlight the weaknesses and strengths of the programmes.
Extending the audit mandate to question the merits of the policy	Agreed because there was a need to evaluate the policies to ensure that the policy introduction was made in a transparent and open manner. This could increase public confidence on the policies implemented by the government agencies.	The extension of this mandate would make the NAD in similar line with other developed countries.	This role would benefit the users particularly the auditees because they could know the extent of the effectiveness of their policy decision.

Fraud detection and reporting exercise	The public misunderstood the auditor's role in this regard. The Audit Act did not require auditors to detect fraud.	The management was responsible for detecting fraud and the public misunderstood the auditor's role in this regard. The auditors would report to the appropriate parties if suspicions of fraud existed.	- same as Auditor 2 -
Providing management advisory services (MAS)	The provision did not impair auditors' independence. Auditors provided only the advice or suggestions and were not involved with decision making.	- same as Auditor 1 -	- same as Auditor 1 -
Influence from the management, executive or external parties	No influence from any party. Opinions expressed were based on evidence collected.	- same as Auditor 1 -	- same as Auditor 1 -
Access to information	The Auditor General had access to all sources of required information.	- same as Auditor 1 -	- same as Auditor 1 -
Qualification and skills	All auditors were well qualified because they had at least a university degree. Auditors needed to have vast experience in investigation and evaluation work in financial and compliance auditing before they could proceed with performance auditing.	All auditors were well qualified and no extra skills were required.	- same as Auditor 2 -

<p>Audit team from different backgrounds</p>	<p>It was a good idea because auditors were unable to master in every field, particularly in technical areas. The combination of professionals from other backgrounds would help the investigation.</p>	<p>The idea cannot be implemented because the NAD did not recognise degrees other than accounting or business related areas.</p>	<p>Agreed because those auditors that had expertise in project management could provide different perspectives on the issues discovered.</p>
<p>NAD or private audit firms</p>	<p>Hiring private audit firms was unsuitable due to confidential information which must not be disclosed or accessed by the public.</p>	<p>The NAD could subcontract the audits to private sectors auditors but the quality of audits might be not as expected.</p>	<p>Subcontracting the audit was not suitable because the NAD needed to pay high fees for the services.</p>
<p>Contents of audit reports</p>	<p>The audit reports had been written in a clear and transparent manner. They had adequately informed and addressed the interests and concerns of the stakeholders.</p>	<p>Users did not use information in audit reports because the issues discussed were outdated.</p>	<p>There was room for improvement such as incorporating comparisons with other well-performing organisations.</p>
<p>Format of audit reports</p>	<p>The present format was adequate. It was purposely designed to enable readers to find rapidly the information they required.</p>	<p>The present format was adequate as it was based on the format used in developed countries and frequently reviewed by the NAD.</p>	<p>The format is adequate and no modification is required at present. Standardisation of audit report enables the comparison of different audits.</p>

Adequacy of auditing standards	The standards were sufficient as to meet the present needs.	The present standards and guidelines needed to be specific and clear as to how to carry out an audit.	The standards were sufficient as to meet the present needs.
To whom auditors are accountable	Parliament	Parliament, auditee and the government	Parliament, auditee and the government
Determination of issues for auditing	The Auditor General and the PAC	The Auditor General	The Auditor General and the PAC
Formal mechanism to communicate information requirement	Online feedback by the public.	No formal mechanism existed. The public could phone the NAD for further information.	No formal mechanism existed.

Issues	Auditor 4	Auditor 5	Auditor 6
Objective of the Performance Audit	The objective was to assess whether the agency's programme had achieved economy, efficiency and effectiveness in its implementation.	The objective was to determine whether the agency's activity meet the 3Es – money, human resources or materials had been spent and used accordingly.	The objective was to check whether such government programme had been implemented efficiently and in an effective manner.
Performance audit conducted by auditors met the objective	The audit met the objective. The government approved additional resources such as extra staff and funds for many agencies based on the issues highlighted in the Auditor General's audit reports.	- same as Auditor 4 -	Performance audits carried out met the objectives because auditors managed to identify the shortcomings in the project and the party responsible for such weaknesses.
Extending the audit mandate to question the merits of the policy	The evaluation of the merits of the policy was practical as the findings could be used for decision making such as consideration to strengthen or make changes to the policy.	The extension of audit mandate is necessary because it would make the NAD relevant to all users although it might draw auditors to political area.	There was a need to extend this audit mandate because the present mandate had been limiting the capacity of auditors to suggest total improvements to the programme.
Fraud detection and reporting exercise	The management was responsible for detecting fraud and the public misunderstood the auditor's role in this regard. The auditors would report to appropriate parties if suspicions of fraud existed.	- same as Auditor 4 -	The public misunderstood the auditor's role in this regard. The Audit Act did not require auditors to detect fraud.

Providing management advisory services (MAS)	The provision did not impair auditors' independence. Auditors provided only the advice or suggestions and were not involved with decision-making.	- same as Auditor 4 -	- same as Auditor 4 -
Influence from the management, executive or external parties	No influence from any party. Opinions expressed were based on evidence collected.	- same as Auditor 4 -	- same as Auditor 4 -
Access to information	The Auditor General had an access to all sources of required information.	- same as Auditor 4 -	- same as Auditor 4 -
Qualification and skills	All auditors were well qualified and no additional skills are required.	- same as Auditor 4 -	- same as Auditor 4 -
Audit team from different backgrounds	The idea was not suitable for implementation because there was no specialisation of work at the NAD at present moment. Thus, seeking external expertise was more practical.	Agreed because those auditors that had expertise in project management could provide different perspective on the issues covered.	- same as Auditor 5 -
NAD or private audit firms	Employing private sector auditors might not be efficient because the result might not match with the NAD's expectation.	Employing private sector auditors might not be efficient because there was a need to retrain auditors for each audit engagement.	This step would increase the number of projects that could be audited as the Auditor General had limited staff to audit all government agencies every year.

Contents of audit reports	The audit reports had been written in a clear and transparent manner. They had adequately informed and addressed the interests and concerns of the stakeholders.	- same as Auditor 4 -	- same as Auditor 4 -
Format of audit reports	The format was adequate and no modification was required at present. All audit reports provided balanced reporting with simple and straightforward sentences.	The format was adequate and no modification was required at present. A standard format ensured that no audit points had been missed out and therefore established a kind of quality control.	The present format was adequate. It was normal for performance auditing to have a long report as the NAD had presently audited opinions and recommendations in addition to main issues discovered during the audits.
Adequacy of auditing standards	The present auditing standards were adequate as they covered all aspects of auditing.	- same as Auditor 4 -	- same as Auditor 4 -
To whom auditors are accountable	Parliament	Parliament and the government	Parliament
Determination of issues for auditing	The Auditor General and the PAC	The Auditor General	The Auditor General and the PAC
Formal mechanism to communicate information requirement	Feedbacks or comments were communicated to the Auditor General during the PAC meetings.	- same as Auditor 4 -	- same as Auditor 4 -

Issues	Auditor 7	Auditor 8	Auditor 9
Objective of the Performance Audit	The performance audit was concerned whether the government agencies was using its resources in the most productive and efficient manner to achieve programme objectives.	The objective was to identify weaknesses and strengths of the project implemented by government agencies. Another objective was to assist the management to improve the efficiency and effectiveness of operational controls and systems.	The objective was to see whether the money approved by the parliament had been spent accordingly to the intended purposes.
Performance Audit conducted by auditors met the objective	The audit met the objective based on the fact that the NAD managed to identify and highlight the weaknesses and strengths of the programmes.	- same as Auditor 7 -	The audit met the objective because the performance of the audited agencies in managing their programmes increased after the audit was conducted at their agencies.
Extending the audit mandate to question the merits of the policy	This role would have benefited the users, particularly auditees because they could know the extent of the effectiveness of their policy decisions.	Questioning the merits of the policy was not needed because the boundaries of government policies were unclear and thus could be subjected to misinterpretation by the politicians.	The extension of audit mandate was possible as the NAD had the professional and technical abilities to evaluate the policy.

Fraud detection and reporting exercise	It was not the auditor's job to detect fraud. It was not within the scope of performance audit.	The Audit Act did not require auditors to detect fraud.	The Management was responsible for detecting fraud and the public misunderstood the auditor's role in this regard. The auditors would report to the appropriate parties if suspicions of fraud existed.
Providing non-audit services	The provision did not impair auditors' independence. Auditors only provided the advice or suggestions and were not involved with decision making.	- same as Auditor 7 -	- same as Auditor 7 -
Influence from the management, the executive or external parties	No influence from any party. Opinions expressed were based on evidence collected.	Auditors were under the influence of the executive. It was normal not to disclose the audit findings due to the pressure by the executive.	No influence from any party. Opinions expressed were based on evidence collected.
Access to information	The Auditor General had access to all sources of required information.	- same as Auditor 7 -	- same as Auditor 7 -
Qualification and skills	All auditors were well qualified and no additional skills were required.	- same as Auditor 7 -	- same as Auditor 7 -

Audit team from different background	Auditors coming from other disciplines and worked together on the same issue would make up the differences on the audit findings because of their skills and knowledge.	- same as Auditor 7 -	Accounting and auditing knowledge alone were not enough. Performance auditing required auditors who were also knowledgeable in administrative and technical sides.
NAD or private audit firms	Hiring private audit firms was not suitable because of confidential information which must not be disclosed or accessed by the public.	It was not practical because it could compromise confidential information, especially on critical projects.	The use of private sector auditors was possible because the NAD would monitor these private firms and therefore could control the quality of the audit.
Contents of audit reports	The contents were sufficient. But, the audit report should be made available to the users promptly especially to the parliament and auditees.	There was room for improvement such as incorporating comparisons with other well-performing organisations.	The audit reports have been written in a clear and transparent manner. They have adequately informed and address the interests and concerns of the stakeholders.
Format of audit reports	The present format was adequate. Users were not motivated to read the audits reports because of their attitude, not the length of the audit reports.	- same as Auditor 7 -	The present format was adequate and modification was not needed. The auditors followed the structure outlined in the guidelines to ensure consistency between evaluations and the ease of locating information in the reports. Further, minor variations were allowed to suit specific needs.

Adequacy of auditing standards	The present guidelines were sufficient. There was no need for auditing standards as performance auditing involved subjective matters.	Some sections of the auditing standards needed to be more detailed such as in risk analysis and fraud.	The present auditing standards were adequate as they covered all aspects of auditing.
To whom auditors are accountable	Parliament, auditee and the public	- same as Auditor 7 -	Parliament and auditee
Determination of issues for auditing	The Auditor General	- same as Auditor 7 -	- same as Auditor 7 -
Formal mechanism to communicate information requirement	Formal briefings and discussions with responsible officers on the findings	No formal mechanism existed.	- same as Auditor 8 -

Issues	Auditor 10	Auditor 11	Auditor 12
Objective of the Performance audit	The objective was to determine whether the agency had complied with procedures and regulations in running the programme. It also wanted to see whether the planned arrangements were implemented effectively and were suitable for achieving objectives.	The objective was to provide management and members of the parliament with information on adequate and inadequate of management measures in implementing the programme.	The objectives are two-fold. First, it was to identify and resolve problems in the government agency's operations. Second, it was to assess the accountability aspect of the agency.
Performance audit conducted by auditors met the objective	The audit met the objective. The government approved additional resources such as extra staff and funds for many agencies based on the issues highlighted in the Auditor General's audit reports.	The NAD strictly required auditors to follow standards and guidelines outlined in carrying out the audits. In this case, the audits provided reasonable assurance that the objectives were achieved.	The audits met the objective because the Auditor General highlighted many issues such as overspending and procedural inappropriateness.
Extending the audit mandate to question the merits of the policy	The extension of audit mandate could provide useful information to the parliament on the policy development and the impact after the policies had been implemented.	This role would have benefited all the stakeholders because they could know the extent of the effectiveness of policy decision and its implications.	The evaluation of the merits of the policy was practical as the findings could be used for a decision making such as whether to strengthen or make changes to the policy.

<p>Fraud detection and reporting exercise</p>	<p>It was not reasonable to expect auditors to disclose and report fraud every time they carry out the audit. The failures or weaknesses of the project could be due to poor implementation and monitoring mechanisms by auditees.</p>	<p>Management was responsible for detecting fraud and the public misunderstood the auditor's role in this regard. The auditors would report to the appropriate parties if suspicions of fraud existed.</p>	<p>Auditors only pursued the investigation if there was a sign of fraud.</p>
<p>Providing management advisory services (MAS)</p>	<p>The provision did not impair the auditors' independence. Auditors provided only the advice or suggestions and were not involved with decision making.</p>	<p>- same as Auditor 10 -</p>	<p>- same as Auditor 10 -</p>
<p>Influence from the management, the executive or external parties</p>	<p>No influence from any party. Opinions expressed were based on evidence collected.</p>	<p>- same as Auditor 10 -</p>	<p>There was a case where results from one study were not included in the audit reports due to sensitivity of information. The report was handed directly to the prime minister.</p>
<p>Access to information</p>	<p>The Auditor General had access to all sources of required information.</p>	<p>- same as Auditor 10 -</p>	<p>- same as Auditor 10 -</p>

Qualification and skills	All auditors were well qualified because they had at least a university degree. Only auditors with adequate experience and exposure could carry out performance auditing.	All auditors were well qualified and no additional skills are required.	- same as Auditor 11 -
Audit team from different backgrounds	Employment of auditors from various disciplines should be efficient because it minimised the need to retrain auditors for each audit engagement.	Agreed because those auditors that had expertise in project management could provide different perspectives on the problems discovered.	The NAD should continue with the present practice of using external expertise because it was more practical.
NAD or private audit firms	Private sector auditors were inexperienced and not well versed with public sector policies and regulations.	Private sector auditors could serve certain areas which did not involve confidential information.	A practical approach as the NAD was understaffed and thus would not be able to audit all government agencies. The NAD was still lagging behind in comparison to developed countries on this issue.
Contents of audit reports	The audit reports had been written in a clear and transparent manner. They had adequately informed and addressed the interests and concerns of the stakeholders.	The contents were sufficient. The reports described the results of the programme and focused on problem areas. Furthermore, the reports recognised the accomplishments and good efforts of the organisations.	The contents were sufficient. But, the audit reports should be made available to the users promptly especially to the parliament and auditees.

Format of audit reports	There was a need to moderate the format of audit reports by introducing a shorter version to attract users to read them.	The present format was adequate and very user friendly because it used a lot of graphics and tables.	The format only acted as a guideline. Auditors had discretion to present the audit report according to the needs of each project.
Adequacy of auditing standards	The present guidelines were sufficiently specific and practical to follow. There was no urgency to introduce new standards.	The standards were adequate. Other than using INTOSAI's auditing standards and guidelines, auditors also used the performance audit manual, auditing standards applicable to the private sector and other relevant laws.	The present auditing standards were adequate as they covered all aspects of auditing.
To whom auditors are accountable	Parliament, auditee and the public	Parliament	Parliament and the government
Determination of issues for auditing	The Auditor General	- same as Auditor 10 -	- same as Auditor 10 -
Formal mechanism to communicate information requirement	Feedbacks or comments were communicated to the Auditor General during the PAC meetings.	- same as Auditor 10 -	- same as Auditor 10 -

