

Prioritizing the Factors Influencing the Development of Operational Audit

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Abstract

In competitive environments, managers using performance measurement process need to correctly lead activities in direction of work progress and organization's objectives and strategies in a conscious way and to take actions for evaluating the current situation of organization's plans and studying performance of every single of their work components for promotion, and improvement of their effectiveness and efficiency. To effectuate this imperative, organizations should use operational audit. Considering the above points, identification of determinants in development of operational audit is considered necessary and important.

Present research intends to identify and prioritize determinants in development of operational audit. At length, determinants of operational audit developments were considered from three individual, environmental and organizational perspectives based on which 27 variables were identified for development of operational audit.

The obtained result from the investigation after statistical analysis suggest that at confidence interval of 95%, all the identified factors have effect on development of operational audit.

Key words: operational auditing, efficiency, effectiveness, economic saving

1. Introduction

In recent years, focus and scope of many audit in public and private sector has undergone changes and since financial statements alone do not meet management's informational needs, managers in public and private sectors look for more information for evaluation and judgment about quality of operations and operational progresses.

In addition, given quick changes and developments and enhancement of organizations' competitive power and capabilities in present time, desirability degree of performance of organization's every single working component and sum of it can be of importance as an measurement criteria of organization's success and by employing them they will be to measure and evaluate current situation of organization's strategic plans and to study performance of its working components and to take actions promotion and improvement of their effectiveness and efficiency. Increased competition has caused senior management in many modern organizations to focus on achieving advantageous position in the market and maintaining it. Managers have found many organizational systems which are expected to be useful for operation progress move in opposite direction of organizational goals and lead to underdevelopment. As a result, to create such grounds, the need for presence of operational audit techniques to assess operations' effectiveness, efficiency and economic saving has been remarkably felt.

Operational audit is one of internal audit tasks in firms and in companies where there is no operational audit this task is assigned to external consulting firms. Task of operational auditors is to provide reports concerning extent of organization's success to top along with suggestions for improvement of these successes (Guredin, 2006). In other words, operational audit provides an independent evaluation of efficiency, effectiveness, and economic saving of businesses' activities.

2. Importance of Research's Subject

Economic system of a country to a great extent depends on management decisions in enterprises. Obviously, these decisions have a critical role in amount of economic incomes, effectiveness of the designated activities and optimum use of production and service possibilities of profit and non-profit organizations of the country. Therefore, in principle, shareholders or their representatives always want to know whether executives in their decisions have acted correctly or not. Whether they have been able to make maximum use of the available potentials or not? Whether in organization, efficiency has been increased and economic saving has been realized? Today, in economic environment which has numerous systems and various dimensions, organization's management has an increasing emphasis on assessment of economic savings, efficiency and effectiveness of organizational operations and operational audit as a tool for this assessment.

Operational audit is a useful tool for correcting these systems and leading organization towards its goals. Operational audit, in addition to examining financial statements and giving its view within framework of financial audit principles and rules, assesses quality of management's decisions and presents its conclusions and recommendations for further management improvement.

Another reason for operational audit importance is expression dissatisfaction with audit traditional role which was simply focused on following laws and regulations and growing citizens' expectation for accountability of organizations' managers (Dubrow, 2004).

Considering importance of improvement in management promotion, in organizations, particularly in public sector, it is necessary that managers make effort in establishing comprehensive management control systems and reconsider it in terms of continuous

assessment of efficiency, effectiveness and economic saving. For this purpose, management auditors like financial auditor can play an important and valuable role for improvement and enhancement of these systems. As a result, desirable account calling of public sector is established when it is considered by planning and performance of organizations based on clear statement of expected objectives and results. Therefore, operational audit as a tool which has a clear expression about observing economic saving, efficiency, effectiveness in large and small organizations' performance is of special importance. Hence, identification of factors which affect development of this type of audit is of particular importance.

3. Problem statement

Since late twentieth century, by foundation of large factories and implementation of development projects which required large amounts of capital, provision of these capitals and administration of these projects was beyond ability of two or more persons and on the other hand, by ever growing global markets and their integration, required collaboration and cooperation of large international companies so as these companies by immense investments and acquiring global markets share brought about more accounting and financial estimation complexities. This resulted in separation of management from ownership and tasks of financial and accounting affairs were assigned to specialized accountants so that accounting profession transformed from traditional state into a systemic and modern approach using advanced softwares (Hassas Yeganeh, 2004). Entrance of operational audit concept goes as far back as 1960 AD or somewhat earlier but this activity actually started in 1970 (Daujotaite & Macerinskiene, 2008). Origins of this type of audit are rooted in countries and in various time periods and in its formation process, numerous professional organizations such as internal, independent and governmental auditors have been involved. Therefore, brief study of the provided definitions in various books and journals indicate use of diverse terms for this type of audit. For example, in Canada, it is known as Comprehensive Audit and in Common Wealth countries, as Audit of Saving, Efficiency and Effectiveness. Officially, starting point of operational audit concept as new audit area is publication of Audit Standards of State Organizations in 1972 by the US Bureau of Audit which later on became known as "Yellow Book" (Flesher & Zarzeski, 2002).

For operational audit, a variety of definitions was provided some of which are as follows:

- Whittington and Pany (1998) state that operational audit is comprehensive examination of one operational unit or the whole organization for evaluation of its systems, controls and performance in comparison with the set goal by management.
- Warning and Morgan (2007) define operational audit as a systematic process of work performance, achievements and processes of governments and organizations for determining effectiveness, efficiency and economic saving.

As can be inferred from the above definitions, operational audit is composed of three constituents of efficiency, effectiveness and economic saving. Today, measurement of efficiency, effectiveness and economic saving should be part of management normal process in every business unit (public and private) and managers should regard study of performance as one of their responsibilities for control on activities and independent assessment should take place by internal audit unit or independent auditors.

Figure 1 shows the concepts input, output, output process, their consequences and affection as well as their relationship with the defined goals for efficiency, effectiveness and economic saving which is a useful tool for operational managers and auditors.

Activities assessment for each concept is obtained from comparison of real (actual) data with planned data (Daujaitaite & Macerinkiene, 2008).

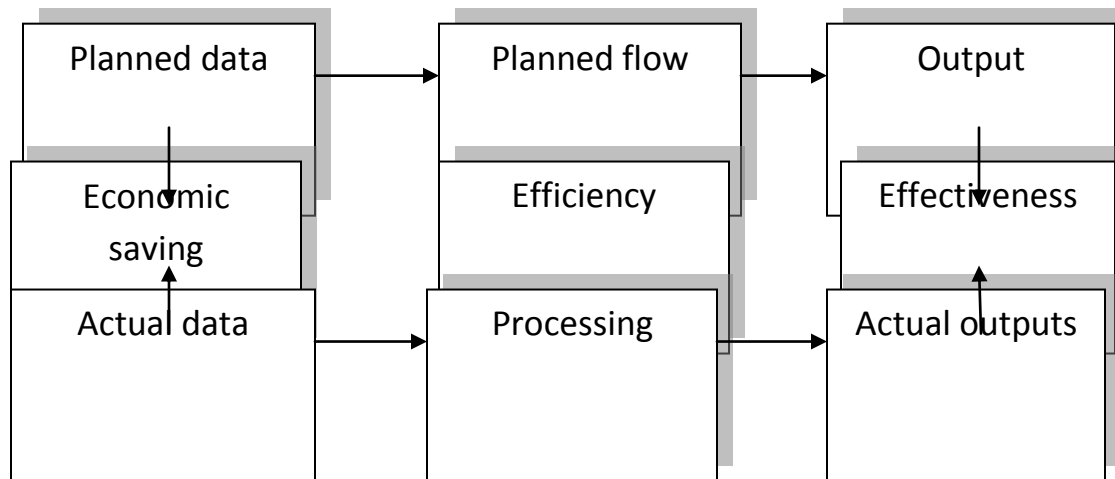


Figure1. Input-Output Chain and its relationship with essential concepts of operational audit (Daujaitaite & Macerinskiene, 2008)

Approach of operational audit is forward looking. However, it not only uses historical information but also determines the past opportunities and possibilities in order to determine whether the operations and information of the time could be used better.

In this direction, operational audit is classified into three major groups: functional, organizational and special missions.

A. Functional Operational Audit

With certainty it can be said that in majority of operational audits, the focus is on functional activities. A daily operational audit is concentrated on a particular set of operational responsibilities or such activities as accounting, contracts management, financing This type of audit rarely exceeds operational lines. However, it normally includes evaluation of relationships between one unit and other internal units with which it has mutual interactions. This type of audit normally looks for the issue whether operations of a particular function (e.g. collecting claims or credits) meet the three essential constituents (efficiency, effectiveness and economic saving)?

B. Organization Operational Audit

Organization operational audit has to do with an organizational unit (department) such as an office, branch or subsidiary. This type of audit targets organization or organizational unit in place of activities and processes.

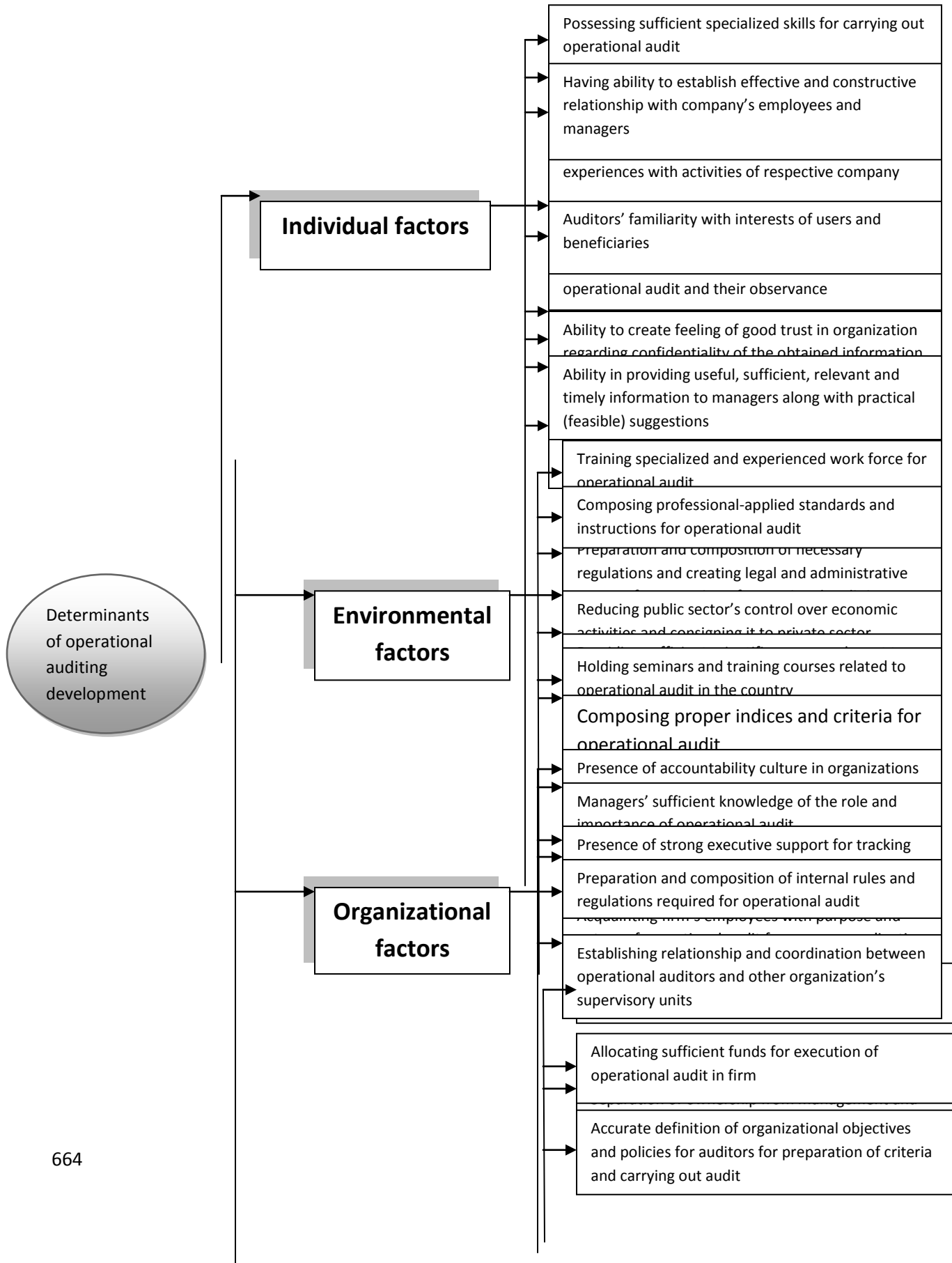
C. Special Assignment Operational Audit

The only common element in special assignment operational audit which exists as compared with current, daily and organization operational audit is that their origin lies in management demand and inevitably it has different purpose and scope (Arens et al, 2006: 769-775).

Given the aforesaid, to identify determinants of operational audit, first, the three main factors, individual, environmental and organizational factors, were taken into account and then within framework of each factor, a number of variables from various reports and articles inside and outside the country were identified based on which the research's conceptual model was designed.

In figure 2, the conceptual models of the research together with identified variables of each main factor are presented.

Figure2. Research conceptual model



4. Research objectives

The most important step in execution stage of a research is specification of the research purposes. The intended purposes in this research are:

Main purpose: identification and prioritization of determinants in development of operational audit.

Secondary purposes:

- Better understanding how to prioritize determinants of operational audit development
- Expanding auditors and organizations' capacity for execution of operational audit
- Enhancing comprehension of operational audit's concepts and applications for effective use of it
- Knowledge of determinants in operational audit development
- Offering feasible suggestions for resolving problems and preparing grounds for execution of operational audit based on the results obtained from the research

5. Research questions

This research tries to answer the following questions:

1. What are determinants of operational audit?
2. How is prioritization of the identified factors in operational research development done?

6. Research methodology

This research in terms of goal is of applied type and in terms of data collection of descriptive-survey type. To collect the required data, for testing research's questions, the statistical population of this research has been selected from among specialists in audit practicing within city of Tehran. From this population, using simple random sampling method by means of Sample Size Determination Formula, a sample of 150 auditors has been selected to collect the required data for testing the research's hypotheses, it is made use of questionnaire which is one of the most common measurement tools in surveys.

To determine the questionnaire's validity, symbolic validation has been used the purpose of which is to use experts' views. In addition, for calculation of the research's questionnaire validation, 24 preliminary questionnaires have been gathered from audit specialists practicing within Tehran and a Cronbach's Alpha of 83.68% using SPSS software was obtained which indicates the questionnaire has an acceptable validity.

In this research, to analyze the obtained data from the questionnaire and to test the research's hypotheses Sign Test and Friedman's Test were used.

7. Research results

Table 1 briefly shows the results obtained from Sign test.

Table (1): Test results from study on effect of each identified factor on operational auditing development

Identified factors	Sig	Test result
Having sufficient specialized skills for carrying out operational audit	0.000	Has effect
Having the ability for establishing effective and constructive relationship with firm's employees and managers	0.000	Has effect
Ability for criteria setting based on firm's type of activity, objectives and mission	0.000	Has effect
Correspondence of auditor's education and experience with the respective firm's type of activity	0.000	Has effect
Auditors' familiarity with users' interest	0.000	Has effect
Operational auditors' sufficient and necessary knowledge of operational audit's principles and standards	0.000	Has effect
Compliance with professional code of conduct such as honesty, perseverance, etc on the part of operational auditors	0.000	Has effect
Ability to create good trust feeling regarding confidentiality of the obtained results	0.000	Has effect
Ability to supply useful, sufficient, relevant and timely information to managers along with feasible advices	0.000	Has effect
Using views of the respective profession's experts in preparation of report	0.000	Has effect
Educating professional and experienced work force with regard to operational audit	0.000	Has effect
Composing professional-applied standards and instructions for operational audit	0.000	Has effect
Preparation and composition of necessary and backed regulations for execution of operational audit in organizations by legal authorities	0.000	Has effect
Reducing government's control on economic activities and consigning their execution to private sector	0.000	Has effect
Procurement of sufficient scientific sources relevant to theories and applied techniques of operational audit	0.000	Has effect
Holding seminars and training courses regarding operational audit in the country	0.000	Has effect
Composition of proper indices and criteria for operational audit	0.000	Has effect
Presence of accountability culture in organizations	0.000	Has effect
Managers' sufficient knowledge of role and importance of operational audit	0.000	Has

		effect
Strong executive support for tracking the reports and suggestions provided by operational auditor	0.000	Has effect
Preparation and composition of the required internal regulations and rules for execution of operational audit	0.000	Has effect
Acquainting firm's employees with purpose and nature of operational auditor's activities for creating an appropriate cooperation	0.000	Has effect
Establishing relationship and coordination between operational auditors and other organization's supervisory units	0.000	Has effect
Sponsorship and support of operational audit implementation on the part of management	0.000	Has effect
Allocation of sufficient funds for execution of operational audit in organization	0.000	Has effect
Accurate definition of organizational objectives and policies for auditors for preparing criteria and execution of operational audit in the firm	0.000	Has effect
Separation of ownership from management and employment of professional managers for organization leadership	0.000	Has effect

In this research, after testing research's hypotheses, using Friedman Test, the identified variables were prioritized. In table 2, 3, 4 and 5, the results obtained from this test are presented.

Table (2): Prioritization of the identified factors in operational audit development

Priority	Factors in order of rank	Major factor	Mean rank
1	Having sufficient professional skills for execution of operational audit	Individual	19.61
2	Ability to determine criteria according to company's activity, objectives and mission	Individual	17.89
3	Having ability to establish effective and constructive relationship with company's employees and managers	Individual	16.48
4	Sufficient and necessary knowledge of principles and standards of operational audit	Individual	16.44
5	Preparation and composition of necessary and backed regulations for execution of operational audit in organizations by legal authorities	Environmental	15.82
6	Compliance with professional code of conduct including rightfulness, perseverance, etc on the part of operational auditors	Individual	15.66
7	Correspondence of auditor's education and experience with the respective company's type of activity	Individual	15.50
8	Separation of ownership from management and recruitment	Organizational	15.04

	of professional managers in organization leadership		
9	Auditors' familiarity with users' interests	Individual	14.75
10	Ability to create good trust in organization regarding confidentiality of the obtained results	Individual	14.18
11	Composition of professional-applied standards and instructions for operational audit	Environmental	13.81
12	Training professional and experience work force for operational audit	Environmental	13.76
13	Reducing government's control over economic activities and consigning their execution to private sector	Environmental	13.57
14	Profiting from experts' view in the respective profession in report preparation	Individual	13.56
15	Accurate definition of organizational objectives and policies for auditors preparation of criteria and execution of operational audit in company	Organizational	13.54
16	Ability in providing managers with useful, sufficient, relevant and timely information along with feasible advices	Individual	13.52
17	Providing sufficient scientific sources and applied methods of operational audit	Environmental	13.45
18	Presence of strong executive support for tracking the reports and recommendations provided by operational auditor	Organizational	13.44
19	Management's sponsorship and support for implementation of operational audit	Organizational	13.06
20	Preparation and composition of internal rules and regulations required for operational audit execution	Organizational	12.69
21	Managers' sufficient knowledge of role and importance of operational audit	Organizational	12.49
22	Allocation of sufficient funds for implementation of operational audit in organization	Organizational	12.42
23	Presence of accountability culture in organizations	Organizational	11.88
24	Composition of appropriate indices and criteria for operational audit	Environmental	11.68
25	Holding seminars and training courses for operational audit in the country	Environmental	11.48
26	Establishing relationship and coordination between operational audit and other supervisory units in organization	Organizational	11.44
27	Acquainting company's employees with purpose and nature of operational auditor's activity for establishing proper cooperation	Organizational	10.83

Table (3): Prioritization of the identified individual factors in operational audit development

Priority	Factors in order of rank	Mean rank
1	Having sufficient professional skills for operational audit execution	6.89
2	Ability to determine criteria based on firm's type of activity, objectives and mission	6.22
3	Having ability to establish effective and constructive relationship with company's employees and managers	5.77
4	Operational auditors' sufficient and necessary knowledge of principles and standards of operational audit	5.76
5	Compliance with professional code of conduct including honesty, perseverance, etc on the part of operational auditors	5.50
6	Correspondence of auditor's education and experiences with the respective firm's type of activity	5.46
7	Auditors' familiarity with users' interests	5.14
8	Ability to create good trust in organization regarding confidentiality of the obtained results	4.91
9	Ability to provide managers with useful, sufficient, relevant and timely information along with feasible advices	4.684.67
10	Use of experts' view in the respective profession in report preparation	4.67

Table (4): Prioritization of the identified environmental factors in operational audit development

Priority	Factors in order of rank	Mean rank
1	Preparation and composition of necessary and backed regulations for implementation of operational audit in organizations by legal authorities	4.69
2	Composition of professional-applied standards and instructions for operational audit	4.13
3	Training specialized and experienced work force in operational audit	4.12
4	Reducing government's control over economic activities and consigning their execution to private sector	4.07
5	Preparation of sufficient scientific sources relevant to theories and applied techniques of operational audit	4.02
6	Composition of appropriate indices and criteria for operational audit	3.53
7	Holding seminars and training courses on operational	3.43

	audit in the country	
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Table (5): Prioritization of the identified organizational factors in operational audit development

Priority	Factors in order of rank	Mean rank
1	Separation of ownership from management and recruitment of professional managers in organization leadership	6.39
2	Accurate definition of organizational objectives and policies for auditors preparation of criteria and execution of operational audit in company	5.78
3	Presence of strong executive support for tracking the reports and recommendations provided by operational auditor	5.73
4	Management's sponsorship and support for implementation of operational audit	5.63
5	Preparation and composition of internal rules and regulations required for operational audit execution	5.51
6	Managers' sufficient knowledge of role and importance of operational audit	5.39
7	Allocation of sufficient funds for implementation of operational audit in organization	5.38
8	Presence of accountability culture in organizations	5.29
9	Establishing relationship and coordination between operational auditors and other organization's supervisory units	5.03
10	Acquainting company's employees with purpose and nature of operational auditor's activity for establishing proper cooperation	4.86

8. Recommended feasible solutions

As the results obtained from the research indicated, all the 27 identified factors had effect on operational audit development. Therefore, based on the obtained data from the questionnaire's contents and the performed observations, some suggestions for development of operational audit are presented:

8.1. Individual factors

- Auditors' continuous efforts in obtaining specialized information for execution of operational audit include: ability to determine criteria, establish relationship with customer, providing useful information and to comply with professional rules
- Holding training courses for auditors in regard to operational audit standards and offering new methods for execution of operational audit in the world through concluding memorandum with universities and other scientific and research centers in order to enhance auditors' proficiencies
- Holding training courses by Audit Organization or respective institutes to acquaint auditors with methods and skills of treating employees and managers
- Composition of a program by Audit Organization or other authorized institutes for auditors to promote their position through their participation in official training classes and courses

8.2. Environmental Factors

- Founding a committee at National Audit Bureau under title of Operational Audit Committee for preparation, translation, composition and acclimatization of international standards and present time achievements of this type of auditing
- Introducing operational audit as an academic discipline in a variety of specializations in master and PhD programs or adding several specialized subject matters related to operational audit in financial disciplines
- Concluding cooperation memorandum between state organizations, Audit Organization, president assistant in supervision and leadership for preparing and composing indices and criteria to measure the three dimensions of operational audit, i.e. efficiency, effectiveness and economic saving
- Reducing government's control over economic activities but enhancing its supervision on realization of operational audit's purposes in public and private centers
- Foundation of Operational Audit Committee in the National Bureau of Audit together with preparation, composition and updating of standards, supervision over execution stages of operational audit and qualitative review of reports
- Expanding cooperation grounds with regard to operational audit among experts of all disciplines (particularly management) and issuing work permit for offering consultation services by the qualified authorities.
- More use of private sector's auditors by Bureau of Audit for operational auditing of the covered legal persons.
- Since the listed companies in the stock exchange have a significant share in the country's economy and industry, maximization of the mentioned companies' efficiency and effectiveness is among the critical factors in growth and development the country's economy, it is recommended General Office of Iranian Securities Exchange to take necessary actions for ratifying binding regulations.
- Composition of operational audit standards by Audit Organization
- Material and immaterial support of researches and studies in this field by authorized organizations such as universities, professional societies, government

8.3. Organizational factors

- use of professional managers at top level of organization and avoiding use of merely political managers
- holding introductory and briefing session for managers and employees to clarify their mentality regarding execution of operational audit and to explain benefits and advantages of its implementation in order to win their support and cooperation with auditors for achieving the acceptable objectives
- Profiting from views of firms' managers at the time of operational audit implementation in determining indices and criteria of efficiency, effectiveness and economic saving in order to win their cooperation, participation and support for operational audit implementation.
- Composing binding regulation regarding operational audit implementation all the legal persons through the system of calling for account by authorized references.

9. Suggestions for future research

Considering the subject of the paper and present research, the following recommendations are offered:

- Given the fact the spatial scope of this research includes the auditors practicing within city of Tehran it is recommended this research to be carried out in other countries as well in order to compare their results with those of present research.
- In this research 127 variables were identified under three principal factors for development of operational audit, it is therefore suggested by carrying out more researches other, yet unknown factors to be identified.
- Given the novelty of the subject of operational audit in our country and unfamiliarity of managers of many firms both public and private with this type of audit, it is recommended a research to be carried out with regard to these companies' lack of interest and desire for implementation of such audit.
- Considering the identified factors in this study and other relevant researches to operational audit, it is recommended a fitting and native model to be prepared and developed for operational audit implementation in organizations in our country.
- Given the shortage of index and criterion regarding operational audit, it is suggested an independent research to address particularly these indices and criteria.

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