UNIVERSITY OF SHEFFIELD

The Impact of External Audit and Use of Resources Assessment on Local Authorities: A Study on Yorkshire and The Humber Region of England

A thesis submitted to the Management School, University of Sheffield, in fulfilment of the requirements for the award of Doctor of Philosophy

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ABSTRACT

External audit has a long history and used to be one of many inspection activities performed on local authorities. It has been used to provide assurance concerning the reliability of the accounts of an authority and on the legality of the underlying transactions. However, since the 1980s, it has been used in a variety of contexts which include new and intense account-giving and verification requirements. Governments resort to auditing to secure local authority accountability to their various stakeholders. External auditors' work for local authorities in England is extended beyond certification audit to cover the Use of Resources assessment, a component included in the Comprehensive Performance Assessment (CPA) regime. The inspection activities were performed by auditors even though the coverage of inspection goes beyond traditional definitions of auditing. The assessment regime of UoR gone through various changes and alterations every year since it was first introduced in 2002 and subject to greater alterations for assessment in 2009. Many researchers have highlighted the issues of extensive and high cost external audit but not many have attempted to discover what is going on in the field. This study fills the gaps found in literatures, exploring what is going on at local authorities and their perception on the external audit performed on them. Published data were analysed before developing structured interview questions. Responses were received from the Director/Head of Finance from 20 local authorities in Yorkshire and The Humber region and 19 were interviewed. This research contributes to the understanding and designing of assessment process covered in external audit practice at local authorities. It helps analyse the impact, perceptions and expectations of local authorities as to how much the external audit has helped and in what ways it could be improved. Different views were shared among the local authorities on the benefit of external audit and how it could be better performed. To conclude, the extensive assessment bears some positive drivers for improvement but should be more carefully designed to include feedback from the auditees and provide a longer time period for one assessment regime to help local authorities to fully respond and adapt its processes. These would help local authorities to reflect the improvement at their organisation rather than in numbers alone.

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1.1 General background and motivation for research

External audit has a long history and used to be one of many inspection activities performed on local authorities. It has been used to provide assurance concerning the reliability of the accounts of an authority and on the legality of the underlying transactions. However, since the 1980s, external auditing has been used in a variety of contexts to refer to new or more intense account-giving and verification requirements (Courville et al, 2003). As argued by Power (1997), there has been an 'audit explosion'. In the context of local authorities in England, the establishment of the Audit Commission (AC) was clearly an important landmark. Although inspection is not new for English local authorities, its intensity has been increasing since the 1980s, because of government concern that local authorities and councillors were losing accountability, effectiveness, even legitimacy (Kelly, 2003). Governments have had recourse to placing greater value on external auditing to secure local authority accountability to their various stakeholders (Laughlin, 1996).

External auditors' work for local authorities in England covers the Use of Resources (UoR) assessment which is one component of the Comprehensive Performance Assessment (CPA) regime. These inspection activities have been called 'auditing' and performed by auditors, even though the coverage of inspection goes beyond traditional definitions of auditing. HM Treasury (in Byatt and Lyons, 2001) believes that external review provides a potentially valuable incentive for improving performance as well as providing independent assurance on standards. Although the 'Modernising Government' agenda demands that inspection activities be combined with performance management to achieve the goal of continuous improvement (Cabinet Office, 1999, p. 40), coordination and sharing of learning between inspectorates was weak (Byatt and Lyons, 2001). The AC has been proposed to take the lead role of coordinating inspection in 2001 to achieve the aspiration of 'Modernising Government' agenda.

The AC was established during an earlier period of controversy about the performance, roles, size, and funding of local government and the wider public service (McSweeney, 1988). It was part of the Conservative Government's agenda to improve local authorities, introducing 'market' systems where local authorities had to function more like business organizations. The emphasis on service standards has subsequently been maintained by the Labour Government after 1997; their pledge to improve public services during general election campaign in 1997 was a major element contributing to their electoral success (Boyne, 1998). The AC, carrying the mandate from central government to regulate local authorities since

1980 has introduced a number of inspection activities using various indicators, which have been changed from one year to another.

The AC's first set of statutory performance indicators (PI) in English and Welsh local government was introduced and applied from assessment year of 1993/94 until later in the assessment year 2001/02, when Best Value Performance Indicators (BVPI) were introduced to replace the PI. To coordinate the performance of local authorities assessed by various inspectorates, the AC introduced CPA in 2002. CPA is an extension to the auditor's work of certifying the financial statements to include certifying services provided by the local authorities. Under the CPA regime, external auditors perform their duties of inspection to gather data and evidence on almost all aspects of local authority activities from financial matters to services provided to the public. The CPA exercise is done on an annual basis and covers all local authorities in England. The AC's appointed auditors write a report on each local authority's performance and later the individual local authority performance is combined to form a report on the performance of the country as a whole.

Local authorities are also ranked according to their performance ranging on a five star scale from 0 stars to 4 stars. Reports are published on the AC website. The CPA has come to its 6th year of assessing local authorities in 2007 and has gone through various changes since it was first introduced. The activities should have had some impact on local authorities. Therefore it would be interesting to discover the extent of the contribution and influence external auditing has had on English local authorities. To achieve this objective, Finance Directors and other staff at selected local authorities based within the Government Office Region of Yorkshire and The Humber were interviewed in addition to a comprehensive analysis of archival documents, policy documents, government published reports, audited financial statements, auditors' reports, and other relevant published documents.

There is an extensive literature on external auditing for the private sector but limited research and publication on local government external auditing and how it is used for and contributes to improve the economy, efficiency and effectiveness of the public sector. One of the areas which remain unclear is evidence of improvement from the audited organisation –the local authorities themselves, and their views. Is there improvement? Has the improvement shown in published scores been real? What are the reasons if there is no improvement? What impact has the drive for improvement had on local authorities? The New Public Management (NPM) which has been embraced by many governments including the United Kingdom (UK) carries a banner of improvement to the public sector (Awio et al., 2007). However, limited evidence has been presented on its achievement and the impact it has had on the public sector. The extent of NPM's contribution on the public sector is disputed. Hood et al (1998; 1999) suggests that the enhanced regulation introduced in the public sector (and local

government), which is used as a means of control, contradicts the NPM notion of decentralization for the public sector.

The essential idea of NPM is that it is a generic management approach similar to the private sector because of the assumption that management for both sectors should be approached in similar ways and should not be differentiated according to type of structure or task (Peters, 1996; Peters and Pierre, 1998; Awio et al., 2007). This argument however is disputed because the public sector is different from the private sector in terms of its objectives and stakeholders. Thus, some aspects of management which are effective in the private sector have to be carefully adapted into the public sector. The system of governance in the public sector has to be adapted into the sector so it could meet the diverse objectives and management structures within it (Hodges et al, 1996). The authors argue that objectives of public service organisations have to be clear so that proper governance and appropriate performance indicators can be identified for reporting.

The public sector represents a principal-agent relationship (The IIA, 2006). The officials, acting as the agent, must periodically account to the principal for their use and stewardship of resources and the extent to which the public's objectives have been accomplished. The inherent risks in the principal-agent relationship may be reduced by an effective accountability mechanism. Thus, governments place greater value on public audit to secure local authorities' accountability (Laughlin, 1996). There has been much evidence of increasing inspection activities since 1980s which is described as audit (Kelly, 2003; Hood et al, 1998). The principal relies upon the auditor to provide an independent, objective evaluation of the accuracy of the agent's accounting and to report on whether the agent uses the resources in accordance with the principal's wishes. This is also reflected in Power's (1997) argument that there had been an explosion in audit, in which auditors' work extends to cover assessment of services. The author also argues that there are more people watching and less people doing; increase in the policing of policing where an auditor inspects the control systems of local government. The money spent for these policing of policing activities is also increasing (Hood et. al., 1999).

Accountability is said to be improved by transparency, when an agent is required to provide more information, that would make them more accountable and more likely to work for common good (Prat, 2006, Heald, 2006b). However, there is not more transparency in practice for several reasons such as that 'strong entrenched interests' prevent transparency, full disclosure may not be an optimal policy, the direct cost of information disclosure and difficulty in communicating the information (Prat, 2006, p. 94-96). Introducing or increasing transparency would be beneficial only if it is seen to make a difference (Heald, 2006a). Furthermore, the ability to objectively measure efficiency, effectiveness and economy has

always been argued by many researchers to be problematic because of its complexity for auditors and as a concept in practice (Lapsley and Pong, 2000).

The review of literature in the following chapter will discuss further the issues of NPM, governance, accountability, auditing as a means of inspection, performance measurement and transparency. This research attempts to contribute to both, (i) the local authorities and the regulators in England by discovering how the local authorities as auditee are performing, responding and adapting to the process as well as (ii) developing countries by documenting the processes, measuring and analysing the improvement and experiences of local government in England. The findings should therefore be very useful for further research to generate improvement at local authorities.

1.2 Research Problem and Gap

The accountability measurement process may be extensive and invited a huge criticism in terms of effectiveness to have such an extensive and costly system. Many researchers argue that the cost benefit of the system is unproven, while others argue about the validity of the number-driven measures presented to reflect a local authority's position and improvement. There is however a lack of empirical evidence on the real experiences of local authorities as the subject of those accountability measures. This thesis explores these issues and provides a basis of knowledge on what is happening on in the audit field, especially what the audit subjects themselves have experienced. Ideas from 'Regulation Inside Government' (Hood et al 1998, 1999, 2000) and 'Audit Explosion' (Power, 1994, 1997, 2000, 2003) will be used to guide and inform the research approach. It is expected that, having the auditees' view heard, the assessment process could be more efficiently designed and effectively measured to improve the functioning of local authorities'. Figure 1 below illustrates the environment of this research in order to explain clearly the main gap this research aims to fill.
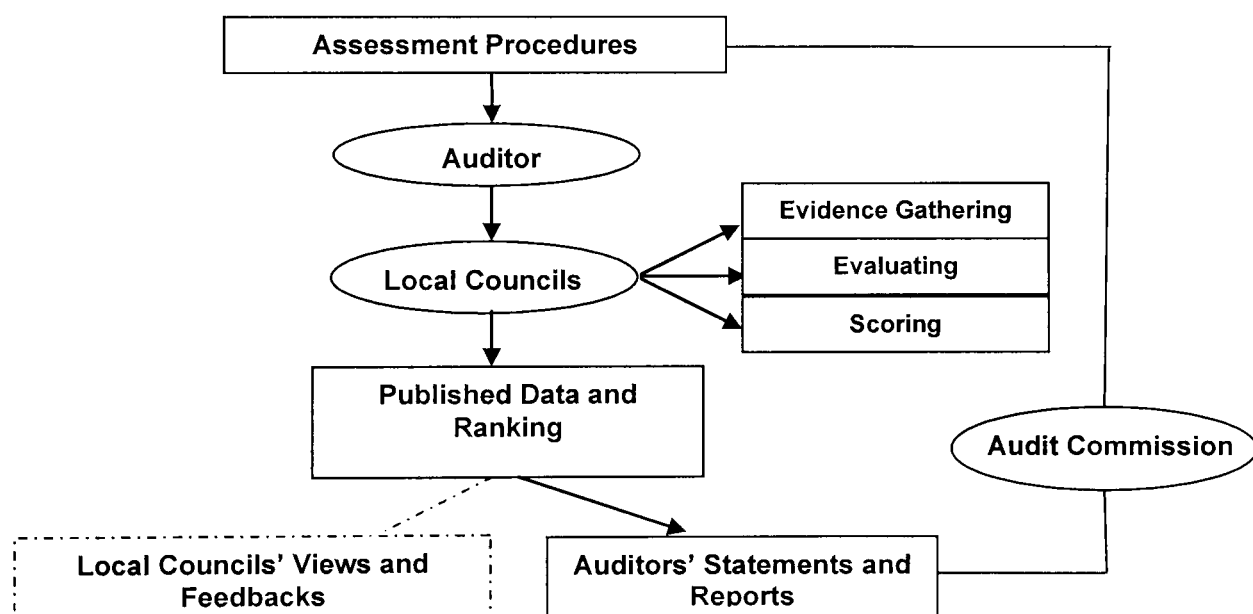
Figure 1: Research Gaps in the external audit for local government

The diagram shows items within the context of this study which evolved around the Audit Commission (AC) as the regulator of local authorities throughout England. The AC, through its committee, designs assessment procedures and guide and appoints auditors to audit local authority based. The appointed auditor will gather evidence based on indicators prescribed by the AC to determine the performance level achieved by that local authority. The results then are moderated and reported by the appointed auditor to the AC which moderates the results at national level moderation before publication. The process continues each year with the AC continuously amending the assessment procedures and evidential requirements. The dotted-lined-box represents the main item which is unexplored, the gap that my study aims to fill. This study documents the external audit practice at local councils in England, considers how it affects local authorities in terms of the AC's review and how the impact is felt by the local authorities themselves. The Finance Department is chosen as the primary contact point in this study for it is where the external audit is centred.

Considering these gaps in the literature, this study examines these aspects, in an innovative way, providing details about the structure of local government through to the audit processes, the administering body, to the output of the process and then analysis of feedback from the audit subjects. Thus, this research may be seen as comprehensive because it documents from the very beginning of these external audit activities to its impact. This research uses an applied approach so that its findings may be used to improve the current audit process in England and could be adapted for application in developing countries, such as my own country, Malaysia.

1.5 Research Question, Aim and Objectives

Having introduced the gaps found in the literature concerning the external audit performed on local authorities in England and explained the professional motivation for choosing this topic to research, the research question, aim and objectives are presented in Table 1.

Table 1: Research Question, Aim and Objectives

Research Question	HOW DO THE EXTERNAL AUDITING FUNCTIONS OF LOCAL AUTHORITIES IN ENGLAND AFFECT LOCAL AUTHORITIES AS AUDITEES?
Aim	*To discover how the external auditing performed at local authorities in England affects local authorities as recipients of the service.*
Objectives (Sub-research questions)	1. *What are the functions of external auditors for local authorities in England?* 2. *How do the local authorities perform based on their auditor's assessment (certification audit and Use of Resources assessment)?* 3. *Do the auditees view the published scores as reflecting their local authority's performance?* 4. *What are the perceived factors contributing to the variations in the local authorities' performance?* 5. *How do the auditees view the external audit process and the performance assessments?*

The first sub-research question is to review the background of external audit performed on local councils throughout England, the regulatory bodies, the local council structures, the processes involved and the outputs. The review which is presented in Chapter 3 of this thesis is necessary because it will be the foundation for further exploration of its impact on local councils. Sub-research question two is based upon a review of published performance: certification audit and Use of Resources Assessment (UoR) which gives feedback on how local councils performed based on their auditor's assessment, and also the impact on the local councils' behaviour towards the assessment. The results will be presented in Chapter 5 of this thesis. Sub-research questions three, four and five will be answered through fieldwork interviews and presented in Chapter 6 of this thesis which completes the main aim of this research.

The sequence of the research objectives (from which sub-research questions one to five were derived) reflect the phases involved in achieving the aim *"to discover how the external auditing performed at local authorities in England affect local authorities as recipients of the service"*. Hence, this study intends to answer the main research question, aim and objective, filling the gaps found in the literature previously mentioned and providing both theoretical and practical contributions on the contribution of external auditing towards economy, effectiveness and efficiency at local authorities.

1.6 Thesis structure

The main aim of this research is to explore and understand the external audit performed on local authorities in Yorkshire and The Humber region of England and the impact it has had on local authorities in the region; the structure of this thesis is as illustrated in Figure 2.

In Chapter 1, the research background, motivation, key gaps identified from literatures, the professional interest and national context in the topic are introduced. The main research question, aim and sub-questions generated as exploratory guidance to achieve the main aim are also discussed. Chapter 2 contains a review of the literature on the external audit of local government. Chapter 3 reviews the local government audit structures in England, to highlight the 'Yorkshire and The Humber' region and the local authorities within it. Chapter 4 discusses the methodological position chosen and the research processes involved. Chapter 5 presents findings from an analysis of the local authorities scored performance from the UoR process. Chapter 6 then discusses the findings from structured interviews conducted with the local authorities in the focus region which constitutes the main data collection phase of this research. Finally, the concluding Chapter 7 summarises the research questions answered, the theoretical and practical contributions, the limitations of the study and directions for further research.

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┊   Literature    ┊      │     │ and Surrounding     │  │    ┌─────────────┐
┊    Review       ┊ ─────┤     │ Issues              │  │    │   PART I    │
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                         └───▶ │     Chapter 3       │◀─┘
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┊ Findings and    ┊ ─────┤     │ Performance         │  │    │   PART II   │
┊ Discussion      ┊      │     └─────────────────────┘  ├──  │  Empirical  │
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┊  Conclusions    ┊ ─ ─ ─ ─ ─▶ │     Chapter 7       │◀──  │  PART III   │
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Figure 2: Structure of the Thesis

2 REVIEW I: PUBLIC SECTOR EXTERNAL AUDIT, GOVERNANCE AND PERFORMANCE MEASUREMENT

Introduction	→	Literature Review I	→	Methodology	→	Findings & Discussion	→	Conclusions
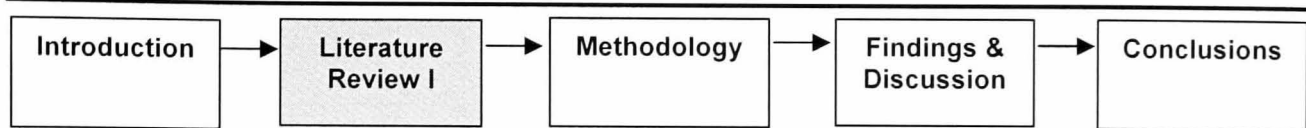
2.1 Introduction

Considering the gap introduced in Chapter 1 which was reflected in Figure 2, the focus of this study is the external audit of local authorities in England. Therefore, to establish the base for reviewing literature, an outline is presented in Figure 3.
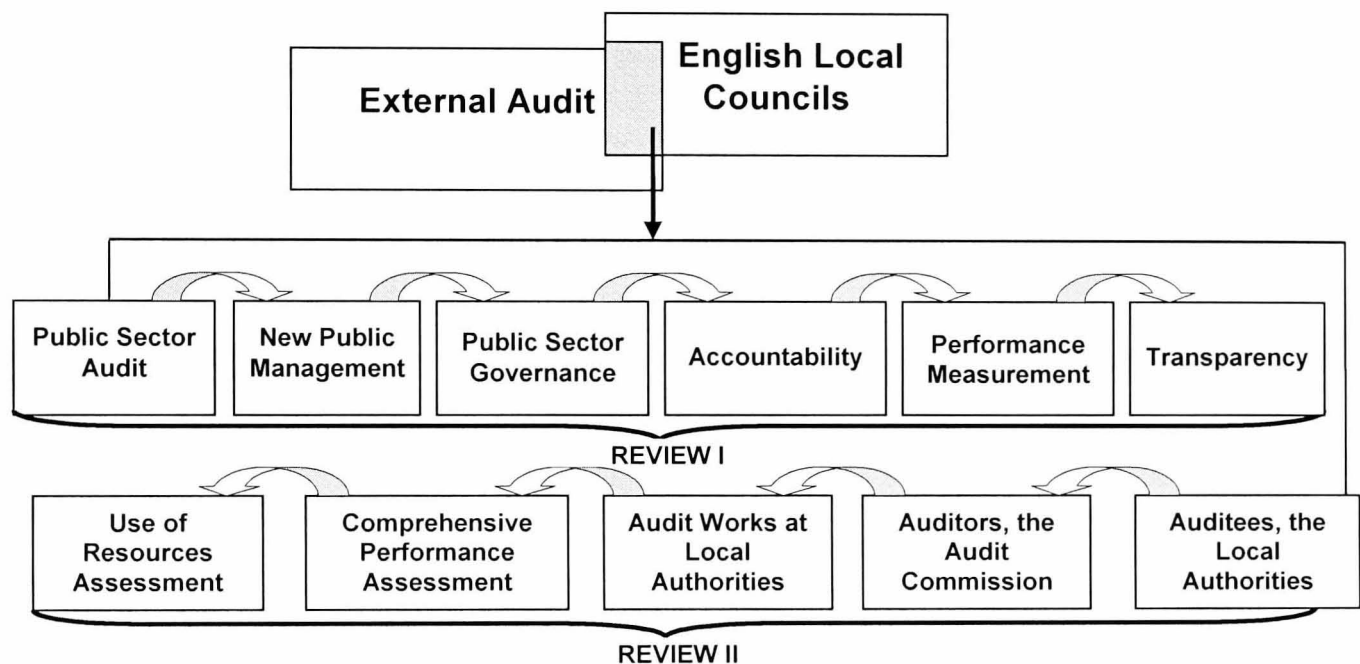
Figure 3: Literature Review Structure

The literature review for this study will be divided into two separate chapters; Chapter 2 which is Review I will look at the background and at issues concerning the external audit of local government, and Chapter 3 which is Review II will explore the technical aspects of external audit of local authorities in England. The literature review for each chapter will follow the subtopics listed in Figure 3. The subtopic boxes will be shaded in the section where each is reviewed.

This chapter reviews government audits in general (Section 2.2). Government audit is the key to good governance and accountability through assessment and performance measurement and reporting. Reporting provides transparency to various government stakeholders. Thus, separate sections are created to review the topics of governance (Section 2.4), accountability (Section 2.5), performance measurement (Section 2.6) and transparency (Section 2.7) before the chapter is summarised (Section 2.8). The new public management (NPM) which underlies governance and regulation will be reviewed in Section 2.3.

2.2 Auditing and the Public Sector

REVIEW I

This section reviews auditing in the public sector in general with a brief review of the UK approach followed by roles and needs for government audits.

2.2.1 Defining audit in the public sector

Porter et al (2003) define auditing as a systematic process of objectively gathering and evaluating evidence related to assertions about economic actions and events which the individual or organisation making the assertion has been engaged, to ascertain the degree of correspondence between those assertions and established criteria, and communication of the results to users of reports in which the assertions are made. Basically, the external audit is a periodic examination of the books of account and records of an entity which is conducted by an independent third party, the auditor, to certify that the books of accounts have been properly maintained, with accuracy and compliance to established concepts, principles, and accounting standards, and provide a true and fair view of the financial state of the entity. According to Power (1997) audit symbolizes a cluster of values which are independent validation, efficiency, rationality and visibility. Lee (1984) wrote:

> In most general sense, an audit is the means by which one person is assured by another of the quality, condition or status of some subject matter which the latter is examined. The need for such an audit arises because the first-mentioned person is doubtful about the quality, condition or status of the subject matter, and is unable personally to remove the doubt or uncertainty' (p. 84)

Dunn (1996) highlighted the fundamental elements which are common to each audit definition: (i) the auditor must be independent (the auditor's examination must be 'objective'); (ii) the auditor must collect *evidence* to support his opinion; and (iii) the auditor must produce a *report* to the users of financial statements. He further wrote that strangely none of the definitions mention the need for the auditor to be *qualified* to express an opinion on the matter under consideration and suggested that this could however have been taken for granted in the sense that each definition has been taken from documents addressed primarily to professional accountants. Thus the purpose of an audit is not to provide additional information, but is intended to enable users to rely more heavily upon the information which has already been prepared by others and to allow an auditor to provide an opinion on the financial statements that have been prepared within a framework of recognised accounting policies. The auditor's opinion helps establish the credibility of the financial statements and is not meant to represent the future viability of the organisation, nor the efficiency or effectiveness of the organisation's management (Dunn, 1996).

Barrett (1999) said that state audit is materially different to the private-sector audit due to the fact of different accountability regimes between the public and private sectors. Similarly, English and Guthrie (2001) wrote that these two sectors are different in terms of auditor independence, audit mandate and focus, discretion to conduct audits, public reporting and funding.

The public sector represents a principal-agent relationship (The IIA, 2006). The officials, acting as the principal's agent must periodically account to the principal for their use and stewardship of resources and the extent to which the public's objectives have been accomplished. The inherent risks in a principal-agent relationship may be reduced by an effective audit activity. The principal relies upon the auditor to provide an independent, objective evaluation of the accuracy of the agent's accounting and to report on whether the agent uses the resources in accordance with the principal's wishes.
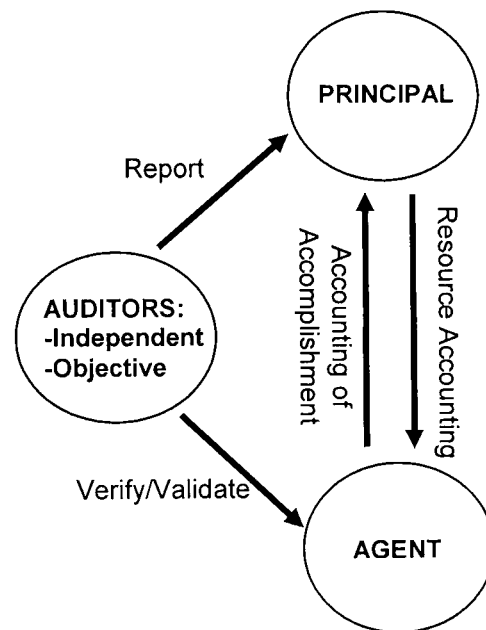
Figure 4: 3-Party Relationship
(Source: Adapted from The IIA, 2006, p. 10)

The need for a third party to attest to the credibility of the financial reporting, performance results, compliance, and other measures arises from several factors inherent in the relationship between the principal and its agent:

i. Moral hazards – conflicts of interest: Agents may use their resources and authority to benefit their own interests, rather than the principal's interests.

ii. Remoteness: Operations may be physically removed from the principal's direct oversight.

iii. Complexity: The principal may not possess the technical expertise needed to oversee the activity.

iv. Consequence of error: Errors may be costly when agents are stewards of large amounts of resources and are responsible for programs affecting citizens' lives and health.

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2.2.2 Roles of public sector audit

An effective public sector audit activity strengthens governance by materially increasing citizens' ability to hold their government accountable (The IIA, 2006). Auditors perform an especially important functions in those aspects of governance that are crucial in the public sector to promote credibility, equity, and appropriate behaviour of government officials, while reducing the risk of public corruption. Therefore it is crucial that government audit activities are configured appropriately and have a broad mandate to achieve these objectives. The audit activity must be empowered to act with integrity and produce reliable services, although the specific means by which auditors achieve these goals vary.

Government auditing supports the governance roles of oversight, insight and foresight (The IIA, 2006). Because government's success is measured mainly by its ability to deliver services successfully and carry out programs in an equitable and appropriate manner, government audit activities should have the authority and competency to evaluate financial and program integrity, effectiveness, and efficiency. Auditors also have to protect the core values of the government as it serves all citizens.

Oversight

Auditors evaluate whether government entities are doing what they are supposed to do, spending funds for the intended purpose and complying with laws and regulation provides the necessary oversight for the decision makers in government (The IIA, 2006). Governance structures are supported through verifying agencies' and programs' reports of financial and programming performance and by testing their adherence to organizational rules and aims. Accountability is achieved through providing access to the performance information to relevant principals within and outside of the organization under audit. Government auditors would assess and report on the success of the elected officials and managers' effort in setting direction, defining organizational objectives, assessing risk and establishing effective controls to achieve objectives and avert risks (The IIA, 2006). Under their oversight role, the auditors would also seek to detect and deter public corruption, including fraud, inappropriate or abusive acts, and other misuses of the power and resources entrusted to government officials (The IIA, 2006). This is achieved through monitoring the effectiveness of management's internal control structure to identify and reduce the conditions that breed corruption. Government auditors would also be responsible for responding to allegations of corruption in the government organizations they serve.

Detection

The auditors' role of detection is intended to identify improper, inefficient, illegal, fraudulent, or abusive acts that have already transpired and to collect evidence to support decisions regarding criminal prosecutions, disciplinary actions, or other remedies (The IIA, 2006). There are several types of detection effort: (i) the auditors' investigation based on suspicious

circumstances or complaints, or 'red flag' that appear during audit work for unrelated reasons; (ii) cyclical audits such as payroll, accounts payable, or information systems security audits, that test an organization's disbursements and/or related internal control; (iii) audit requested by law enforcement officials that analyze and interpret complex financial statements and transactions for use in investigating and building evidentiary cases against perpetrators; (iv) reviews of potential conflicts of interest during the development and implementation of law, rules, and procedures.

Deterrence

This role is aimed at identifying and reducing the conditions that allow corruption (The IIA, 2006). Deterrence is achieved by assessing controls for existing or proposed functions, assessing organizational or audit-specific risks, reviewing proposed changes to existing laws, rules, and implementation procedures, and reviewing contracts for potential conflicts of interest. Deterrence can also be achieved through successful detection efforts (The IIA, 2006).

Insight

This role is provided through the assessment of programs and policies, sharing best practices and benchmarking information, and viewing horizontally across government organizations and vertically between the levels of government to find opportunities to borrow, adapt, or re-engineer management practices (The IIA, 2006). Audit activity helps institutionalize organizational learning through providing continuous feedback to adjust policies. To enable conclusions being drawn based on evidence, auditors conduct their work systematically and objectively to develop a detailed understanding of operations. Hence, audits can provide a fair description of problems, resources, roles, and responsibilities that, combined with useful recommendations, can encourage stakeholders to rethink problems and programs. This contributes to improvement and enhances the capacity of government when dealing with similar problems.

Foresight

This role helps audited organizations to look forward by identifying trends and bringing attention to emerging challenges before they become crises (The IIA, 2006). The audit activities highlight future challenges from demographic trends, economic conditions, or changing security threats, and identify risks and opportunities arising from rapidly evolving science and technology, the complexities of modern society and changes in economic nature. Such issues normally represent long-term risks that may exceed the terms of office of some elected officials, and sometimes may not be treated as priority for attention especially where resources are scarce and necessary to focus on urgent concerns (The IIA, 2006). Foresight is also achieved with the common audit approach of risk based auditing (IIA, 2006). Risk based auditing focuses on the organization's overall risk management

framework, which can help identify and deter unacceptable risks and also provides useful and relevant information for the organization's risk management. Government auditors play a key role in helping managers understand and initiate risk assessments.

As a key to good public governance, maintaining an appropriate configuration with a broad mandate is important for government auditing (The IIA, 2006). These ensure achievement of the organization's governance objectives. Obtaining an appropriately broad mandate would enable government audit to respond to the full scope of the government's or governmental unit's activities. At a minimum, every government requires some form of independent audit activity that has authority to evaluate the full range of the government's activity (The IIA, 2006). Complementary external and internal audit entities would be able to provide the full coverage of audit (The IIA, 2006). However, one audit entity alone, or an entity combining a hybrid of internal and external audit characteristics, may be appropriate for some smaller governments or sub-governmental units. As government auditing strengthens governance by providing accountability and protecting core government values, elected and appointed officials at all levels should support effective audit activities by establishing independent audit functions that meet all of the key elements (The IIA, 2006).

To achieve an effective public sector audit activity, at a minimum these key elements are necessary (The IIA, 2006, p. 4):

i.   *Organisational independence*. Organizational independence allows the audit activities being performed without interference by the entity under audit. The audit activity should have sufficient independence from those it is required to audit so that it can both conduct its work without interference and be seen able to do so. Coupled with objectivity, organizational independence contributes to accuracy of the auditors' work and the ability to rely on the results and report.

ii. *A formal mandate*. The auditors' powers and duties should be established by the government's constitution, charter, or other basic legal document. The mandate document would include an address to procedures and requirements of reporting and the obligation of the audited entity to collaborate with the auditor.

iii. *Unrestricted access*. Auditors should be able to conduct their audit with complete and unrestricted access to employees, property and records.

iv. *Sufficient funding*. Auditors must have sufficient funding relative to the size of audit responsibilities. This important element should not be left under the control of the organization under audit because the budget impacts on the auditors' capacity to carry out their duties.

v.   *Competent leadership*. The head of auditors must be able to effectively recruit, retain, and manage highly skilled staff. Moreover, the chief audit executive should be an articulate public spokesperson for the auditors.

vi. **Competent staff.** Auditors should be a professional staff that collectively has the necessary qualifications and competence to conduct the full range of audits required by their mandate. Auditors must comply with minimum continuing education requirements established by their relevant professional organizations and standards.

vii. **Stakeholder support.** The legitimacy of the audit activity and its mission should be understood and supported by a broad range of elected and appointed government officials, as well as the media and involved citizens.

viii. **Professional audit standards.** Professional audit standards support the implementation of the previous elements and provide a framework to promote quality audit work that is systematic, objective, and based on evidence. Just as many governments have adopted internal control standards, either as requirement or guidance for public sector managers, and auditors should conduct their work in accordance with recognized standards.

2.2.3 Economy, Efficiency and Effectiveness

McSweeney (1988) wrote that the aim of external auditing of local government under the direction of the Audit Commission is now not merely the continuation of traditional financial and regularity audits, but also to judge the 'economy', 'efficiency' and 'effectiveness' of local authorities' operational arrangements and accomplishments. Economy, efficiency and effectiveness have been recognised as the three pillars of value for money, the three Es (Buttery et. al, 1993). The AC (1987) defines three Es as:

> **Economy** may be defined as the terms under which the authority acquires human and material resources. An economical operation acquires these resources in the appropriate quality and quantity at lowest cost.
> **Efficiency** may be defined as the relationship between goods and services produced and the resources used to produce them. An efficient operation produces the maximum output for a given set of resource inputs; or, it has minimum inputs for any given quantity or quality of service provided.
> **Effectiveness** may be defined as how well a programme or activity is achieving its established goals or other intended effects.

The auditor's role regarding economy and efficiency is not as problematic to justify as their role to ensure effectiveness (Buttery et. al., 1993):

> When the auditor begins to question how effective an organisation's policies are in achieving its defined objectives there may well be resistance: yet, if the auditor is to meet the objectives defined in the Auditing Practices Board (APB) guideline, the effectiveness of policies must be evaluated. (p. 86)

McSweeney (1988) argues that the criteria for three Es may be simplified but their meanings are complex and their use for auditing or managerial purposes is often problematic, indefinite, and capable of different and conflicting interpretations. He raises questions:

> How, and on the basis of what other values, can, or should, the relative importance of each of the three E's' be decided and evaluated? Are each of equal status? What additional criteria should be, or are, used in evaluating trade-offs between them? It is not difficult to imagine circumstances in which effectiveness could be enhanced but to the detriment of economy, and the converse. Are such arrangements known? Within

what length of time should the achievement, or not, of the criteria be judged? Is it possible to do so within an audit year? (p.32)

Thus, any attempt to measure three Es has to be thought and done carefully. A reflection of the environment and capacity of an organization should also be dealt with for the measures to be meaningful and reliable.

2.2.4   Value for Money Auditing

Dewar (1985) claimed that value for money (VFM) auditing has been around since the fifth century. It has become widespread in the twentieth century when value for money auditing has make an escalating contribution to the development of public administration and government as a whole (Normanton, 1966). Normanton wrote:

> In England, it is doubtful whether the idea of an audit going beyond consideration of regularity was ever even considered in the early days of parliamentary control of accounts.' (p.104)

The author gives an example of a case that pushed the boundary of auditing beyond regularity during the early days of VFM audit, highlighting from an 1887 audit report about the purchase of ribbon for army medals for 20 shillings when it could be bought from other supplier for 14 shillings, in which it provoked a landmark declaration from the Committee of Public Accounts (PAC) because the military department refused to reply to the report initially. The declaration by PAC:

> 'If in the course of his audit the C&AG becomes aware of facts which appear to him to indicate an improper expenditure or waste of public money, it is his duty to call the attention of parliament to this.' (p. 105)

INTOSAI (1977) describes value for money audit as a comprehensive audit of management activities from reviewing performance, effectiveness, economy and efficiency of public administration up to the organisation and its administrative system. Bowerman (1996) wrote that it is generally acknowledged that, as a minimum, value for money audit includes the examination of economy, efficiency and effectiveness and she distinguished value for money based on its approaches into six different types:

(1) *Review of management systems, arrangements and procedures* – auditor identifies poor value for money, makes recommendations for improvement and gives advice on management arrangements to improve value for money.
(2) *The value for money procedures audit* – auditor checks that an organisation has established objectives, and has a system for measuring performance and for ensuring that objectives have been achieved.
(3) *Policy audit* – auditor assesses whether a policy or programme has been effective as well as economical and efficient.
(4) *Audit of management representations of value for money* – auditor verifies information prepared by management on the achievement of value for money.
(5) *Comparative performance audit* – auditor compiles a database to compare cost/performance between similar organisations, and identifies and recommends best practice to improve value for money.
(6) *Quality audit* – auditor uses customer satisfaction surveys to evaluate successful performance; may also verify management's quality assurance information. (p. 195)

In England and Wales the statutory authority to conduct VFM audit was granted in 1982 for local government and 1983 for central government (Bowerman, 1996). The main public

sector external auditors in Britain are the National Audit Office (NAO), the Audit Commission (AC) for England and Wales and the Accounts Commission for Scotland. Local governments in England are evaluated for their VFM based on the AC's specified criteria, which the appointed auditors would assess, use their judgement and score local authorities.

2.2.5 Audit models and UK approach

In the public sector, the cornerstone of good public financial management is accountability for the use of public funds. Therefore scrutinising public expenditure and providing an independent opinion on how the officers have used public resources is considered necessary. Supreme Audit Institutions (SAIs) are the national bodies' entrusted with this responsibility. Different external audit models are applied throughout the world by the different SAIs, but there are four fundamental objectives of public sector auditing[1] which guide their work. The objectives are:

i.   to promote proper and effective use of public funds;

ii. to promote the development of sound financial management;

iii. to promote proper execution of administrative activities; and

iv. to promote the communication of information to public authorities and the general public through the publication of objective reports.

Table 2: Common Audit Models

Model	Distributions
Westminster model, also known as the Anglo-Saxon or Parliamentary model	The United Kingdom and most Commonwealth countries including many in sub-Saharan African, a few European countries such as Ireland and Denmark, Latin American countries such as Peru and Chile
Judicial or Napoleonic model	The Latin countries in Europe, Turkey, francophone countries in Africa and Asia, several Latin American countries including Brazil and Colombia
Board or Collegiate model	Some European countries including Germany and the Netherlands, Argentina, Asian countries including Indonesia, Japan and the Republic of Korea

Source: Policy Division, Department for International Development
Department for International Development Briefing, 2004, Policy Division, Characteristics of different external audit systems

Table 2 shows common audit models published by the Department of International Development (2004) in an attempt to group countries based on shared characteristics of external audit. Nevertheless, every country in the groups will have their own SAI and maintain different models. Thus belonging to one of the groups does not mean that their external audit characteristics are exactly the same. As for the UK, there are four national audit agencies: Audit Commission (AC), Audit Scotland, National Audit Office (NAO) and the Northern Ireland Audit Office (NIAO). These agencies are responsible for the audits of

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[1] The Lima Declaration of Guidelines on Auditing Precepts issued by the International Organisation of Supreme Audit Institutions in 1977 and reissued in 1998, quoted in DFID Briefing (2004)

central government (including executive agencies, trading funds and the non-departmental public bodies (NDPBs)), local government and the health service. Separate audit arrangements are in place for education institutions and registered social landlords (formerly housing associations). Audit Scotland covers substantially all public sector entities and the NAO also supports the Auditor General for Wales.

The AC, Audit Scotland, NAO and NIAO co-operates in the development of common practices across the public sector, notably in the issue of Practice Note 10 (PN10) Revised on 'Audit of Financial Statements of Public Sector Entities in the United Kingdom' by the Auditing Practices Board (APB) and in the establishment of the Public Audit Forum (PAF) in 1998. The PAF has issued a series of reports on public sector audit topics including 'The Principles of Public Audit'. The principles of public audit introduced by the PAF are: (i) the independence of public sector auditors from the organisation being audited; (ii) the wider scope of public audit, that is covering the audit of financial statements, regularity (or legality), propriety (or probity) and value for money; (iii) the ability of public auditors to make the results of their audits available to the public and to democratically elected representatives. Governing legislation determines the ways national audit agencies operate; generally NAO and NIAO operate in similar manner while the AC and Audit Scotland share many similar characteristics.

The four national audit agencies have common features (CIPFA, 2002):
  i.   auditors are appointed to public bodies independently of the management or elected or appointed members of those bodies;
  ii. audit appointments are reviewed regularly and audit firms are rotated at intervals;
  iii. the provisions of non-audit services to public bodies by the firms that provide the statutory audit are regulated;
  iv. a fee regime is operated for auditors;
  v.   an audit that is wider in scope than the audit under the Companies Act is specified;
  vi. results of audit are made available to the public and to democratically elected representatives.

Besides the features above, the public sector in the UK generally appoints a Chief Financial Officer (or any title of similar position), who is a qualified member of a recognised accountancy institute. The public sector places considerable responsibility by statute on individual officers for the financial management and financial reporting of the entity. For local government in England and Wales, the chief financial officer (CFO) must under statute be a qualified member of a CCAB body, has certain responsibilities in law and is bound by the ethical code of his or her institute and must have the technical ability to understand financial reporting standards (CIPFA, 2002). An internal audit function which its size and scope of work to be determined by the audit committee, is a mandatory requirement for local

government. The broad responsibility of internal audit is set out in statute and the requirement is accompanied with an abundance of codes, standards and other guidance relative to the particular area within the public sector (CIPFA, 2002). External auditor reliance on and co-operation with internal audit is thus expected and encouraged at local government.

The New Public Management (NPM) has brought some changes in governance and accountability mechanisms in the public sector. Hence, the following section is a review on the NPM, its features and impact on audit.

2.3 Public Sector and the New Public Management

REVIEW I

2.3.1 The New Public Management

New Public Management is a term used to describe a set of broadly similar administrative doctrines which has developed from the changes in public sector accounting in many Organisation for Economic Cooperation and Development (OECD) countries in the late 1970s and has dominated those countries' public administrative reform agenda (Hood, 1995; Pollitt, 1993; Ridley 1996). NPM is also considered as a collection of activities and measures designed to introduce an ethos of business management and entrepreneurship into the management and delivery of public services (Hall et al, 2003). NPM being the driving force of various innovations in public sector accounting has also affected auditing practices at local government. Pollitt (2007, p. 110) assumes that NPM is a two level phenomenon:

1. Higher level – it is a general theory or doctrine that improvement in the public sector is possible through the application of business concepts, techniques and values;

2. Mundane level – it is a bundle of specific concepts and practice which include:

   - Greater focus on 'performance', especially through output measurement;
   - A preference for lean, flat, small, specialized (disaggregated) organizational forms over large, multi-functional forms;
   - A widespread substitution of contracts for hierarchical relations as the principal coordinating device;
   - A widespread injection of market-type mechanisms including competitive tendering, public sector league tables and performance-related pay;
   - An emphasis on treating service users as 'customers' and on the application of generic quality improvement techniques such as 'total quality management'.

The majority of concepts described above have been introduced at local government in England, such as the emphasis on performance measurement, injection of market-type

mechanisms, emphasis on treating service users as 'customers' and quality improvement. Therefore sections that follow will review the drivers for change in public management, the characteristics of NPM and its impact on public sector audit.

2.3.2 Drivers for change

Government bodies and agencies are not isolated from the drive of management innovation and change. Lapsley and Wright (2004) wrote that developed and developing countries have been embarking on public sector management reforms since the 1980s. Hood (1991) wrote:

> the rise of 'new public management' (NPM) over the past 15 years is one of the most striking international trends in public administration. (p.3)

The NPM reforms have been attractive to many governments because of their acclaimed benefits of improving efficiency, effectiveness and accountability in the public sector (Awio et al., 2007). Holmes (1992) claimed that the motives for reform in public sector administrative machinery were modernization and economy which in other words is *improved public sector performance*. The motives therefore linked to decentralization, rationalization, professionalization and standardization. Rhodes (1994) claimed that the management reforms were based on the conviction that the public sector must emulate private sector management. The changes to human resource management systems, accounting systems and industrial relations systems are due to a combination of factors that have also occurred in other western democracies (Broadbent and Guthrie, 1992; Ryan, 2000).

English (2003) wrote that the movement is closely related the election of 'market-oriented' conservative governments in the late 1980s in Britain. On the other hand, labour or socialist administrations in Australia and New Zealand have also made their move where such changes have also been classified as NPM policies (Hood, 1995). As written in Hood (1991):

> NPM is emphatically not a uniquely British development. NPM's rise seems to be linked with four other administrative 'megatrends', namely:
> (i) attempts to slow down or reverse government growth in terms of overt public spending and staffing (Dunshire and Hood 1989);
> (ii) the shift toward privatisation and quasi-privatisation and away from core government institutions, with renewed emphasis on 'subsidiarity' in service provisison (cf. Hood and Schupert 1988);
> (iii) the development of automation, particularly in information technology, in the production and distribution of public services; and
> (iv) the development of a more international agenda, increasingly focused on general issues of public management, policy design, decision styles and inter-governmental cooperation, on top of the older tradition of individual country specialism in public administration. (p.3)

According to English (2003), the managerial reform movement has been promoted on the basis that the public sector was too large and cumbersome, organized on the wrong principles and in need of re-invention and industrial renewal. As a result, several techniques has been applied into government bureaucracies such as the economic theories to endorse purchaser/provider, and policy/operations splits, the funding of outputs to achieve outcomes

and the introduction of contestability into provision of services (Barton, 2001; English and Guthrie, 2001).

Advancement and prosperity are not the only reasons for the adoption of the NPM techniques. Other factors have also contributed to the adoption of private sectors styles of management by the public sector. The public sector also has the urged to provide some security for the public that they have a stable government. Tax payers who contributed their money for the running of government would like to see that their money is being used properly for their benefit. James (2003) wrote that the reform in regulation inside government seems implicitly to reflect a public interest view of regulation, seeing it as a means to mitigate government failures and improve public welfare. English (2003) suggests that NPM reforms could possibly not be economically motivated but politically motivated by a government sensitive to criticism.

The public at large also want to ensure that money is not wasted on popular projects to boost political parties. At the same time, councillors are elected to lead local authorities, are trusted with public money and need to exhibit their accountability to the public to maintain the public's trust. This has made government resort to enhanced transparency as a means to let the public know how their money has been used. Hood (1990) identified five possible reasons for the rise of NPM in the 1980s, as depicted in Figure 5 below:
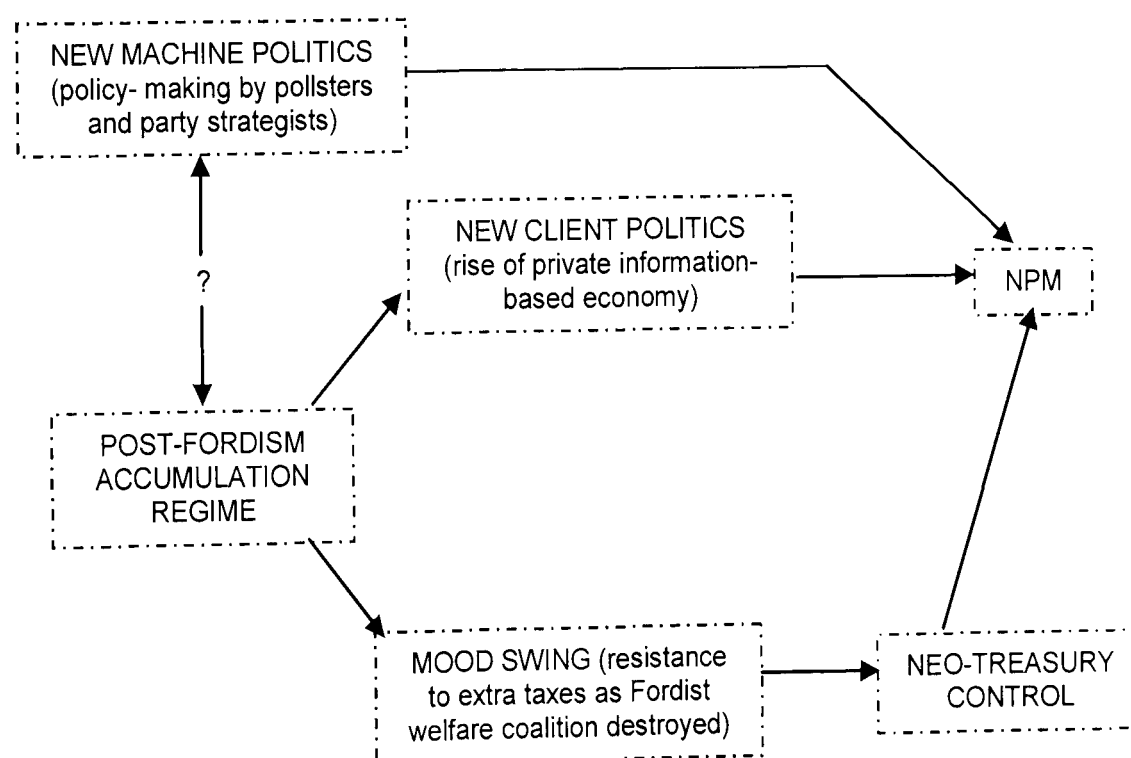
Figure 5: The Rise of New Public Management – Possible Explanation
(Source: Adapted from Hood, 1990, p.208)

The first reason for NPM is interpreted as a 'mood-swing – a new intellectual fast food for the fickle consumers of takeaway management' (p. 206). The second reason represents NPM as a new-look form of Treasury control, a set of convenient doctrines fastened upon by central

controlling agencies to destroy the administrative bases of the 'public service welfare lobby' and to increase their power vis-à-vis the professionalized line departments. Both reasons however do not justify why NPM boom happened in the 1980s rather than at any other time (Hood, 1990). The third reason is that NPM works to reflect a new political campaign technology – a shift to public policy based on intensive opinion polling which is part of the new political machine. This means that policy making is driven through pollster and professional party strategists, which reduced bureaucracy. Hence, the politicians will maintain only the skills of managing, not formulating policy. Some commentators view this move as reason why governments like Thatcher, Hawke and Lange/Palmer have been able to stay in power longer than the governments of the 1960s and 1970s (Hood, 1990).

The fourth reason is a reflection of 'new client politics', the start of a new, flexible coalition whose shared self-interest drives a 'policy boom' (Hood, 1990). This means a combination of 'bureau-shaping' top managers with an interest in abandoning the 'front-lines' of their organizations, politicians aiming to increase their power of patronage, management consultants, financial intermediaries, insurance companies, and other groups with a clear stake in privatisation and contracting out (Hood, 1990). According to Hood (1990), this explanation provides reasons for NPM being successful in conquest for 'self-interest' reasons rather than for its rhetoric focus of 'public good'. But still this reason does not explain why NPM emerged in the 1980s, when the same interest groups could have stood to benefit in 1880s or 1920s (Hood, 1990). The fifth and last reason for NPM is because social changes triggered by 'post-industrialism' or post-Fordism'.[2] Hood (1990) wrote:

> The shift from 'Fordism' to 'Post-Fordism' has potentially profound implications for the management of public services, particularly in post-Fordism's features of 'flexible specialization' and 'an increasingly heterogeneous labour force'. (p.207)

'Flexible specialization' can remove barriers that existed between 'private sector work' and 'public sector work' (Hood, 1990). This feature creates the potential for a new era of 'public sector Taylorism with computers' and makes it transactionally convenient to contract out more 'white collar' government activities than previously. 'An increasingly heterogeneous labour force' allows a break up of traditional electoral coalitions for government growth, by changing the position of the median voter in the income distribution scale. Hood further explained that, out of the five possible reasons, the last is 'certainly the most complete' to explain the rise of NPM in 1980s, although a strong link between changes in the government sector and changing technologies in the wider world could be argued (Hood, 1990).

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[2] 'Post Fordism' is the term used by the Marxist regulationist school to label the emerging regime of production and consumption which is associated with the late twentieth century Kondratiev cycle and its frontier technology, notably microelectronics, biotechnology and materials.

2.3.2 Characteristics of NPM

NPM has many characteristics that are frequently mentioned by researchers (Gruening, 2001). Ferlie et al. (1996) put these characteristics under four broad categories. The first is that NPM is seen as characterised by a large-scale privatisation programme which involves the sale of many nationalised industries. Second, the social policy functions of the public sector have been subjected to the process of managerialisation and marketisation. There is a growing challenge to fashion 'quasi-markets' within the public sector in order to disaggregate previously line-managed organisations into purchasing and providing wings and to create legal relations or contracts between them rather than a hierarchy. Third, there is more emphasis on 'doing more with less' to secure value for money which hinges on the use of comparative performance indicators, the development of enhanced cost, information, and audit systems. Finally, there is movement from maintenance management to 'management of change' where the public services are managed by more active, visible and individualistic forms of leadership.

According to Norman and Gregory (2003), some of the key features of NPM are that: it promises greater efficiency within public organisations by providing managers with greater freedom to allocate resources but holding them responsible; it preaches the need to organise for results; it teaches the need to clearly specify objectives; and upholds the generation of quality information about progress. Hood (1990) describes these features as clearness of objectives; freedom to manage; accountability; sufficient information flows; and effective evaluation of performance as the 'NPM Manifesto'.

Nagel (1997) points out that NPM has one basic characteristic, expressed in its emphasis on economic norms and values. Christensen and Laegreid (2002) assert that this one-dimensional feature of NPM implies an ideological supremacy of economic norms over many traditionally legitimate norms and values. The authors maintain that NPM is strongly influenced by opinions based on economic and management theories concerning how an efficiency focus should transform the public sector in terms of its formal organisation, the procedures used, the expertise needed and its relationship with the private sector. Essentially, NPM is an idea of generic management for it argues that both public and private sector management should be approached in similar ways as they have similar challenges and should therefore not be differentiated according to type of structure or task (Peters, 1996; Peters and Pierre, 1998; Awio et al., 2007).

According to Christensen and Laegreid (2002), NPM has a hybrid character despite its emphasis on economic values and objectives. It is a well-known assessment that there are tensions within the hybrid character of NPM which combine economic organisation and management theories (Aucoin, 1990; Hood, 1991; Self, 2000; Yeatman, 1997). NPM is a loose and multifaceted concept with diverse components consisting of hands-on

professional management which allows managers to possess a dynamic and discretionary control of an organisation; explicit standards of performance; increased competition; greater emphasis on output control; private sector management techniques; contracts; decentralization; disaggregation of units; deregulation; and customer service orientation (Hood, 1991, 1995; Pollitt, 1995; and Christensen and Laegreid, 2002). In essence NPM is based on a combination of microeconomic theory and managerialism.

Cope et al. (1997) wrote that NPM is characterised by five traits: 'private good, public bad'; centralisation; decentralisation; competition; and fragmentation. According to the authors, NPM reflects an ideological commitment based on the simple faith of 'private good, public bad', which asserts the superiority of the market over the state and, therefore, urges injecting market forces into government. NPM represents the New Right way of public sector management which reorganises public sector bodies in a way that brings their management, reporting and accounting approaches closer to a particular perception of business methods (Dunleavy and Hood, 1994). Again, NPM progressively centralises the formulation of policy strategy, particularly policy goals and budgets in the hands of the executives who are at the heart of government, embracing a closely knit network of senior ministers and officials and trying to separate the 'steering from rowing', thus leaving the centre to steer while other agencies row (Osborne and Gaebler, 1992).

Cope et al. (1997) argue that NPM decentralises the delivery of public policy to several agencies, including local authorities, non-government organisations and private contractors that apply managerial and operational discretion within the confines of policy strategy laid down by the centre. The authors further note that NPM reflects the view that greater competition between the public and private sectors and within the public sector will encourage greater efficiency by making public sector agencies more consumer-responsive. Finally, the authors note that NPM has the tendency to fragment governments due to the nature of steering/rowing, client/contractor and purchaser/provider splits within government.

Gruening (2001) classifies NPM characteristics into (i) undisputed; and (ii) debatable, and maintains that these are the common features frequently mentioned by academic observers. Among the undisputed characteristics are budget cuts, vouchers, accountability for performance, performance auditing, privatization, customers (one-stop shops, case management), decentralisation, strategic planning and management, separation of provision and production, competition, performance measurement and changed management style. The other undisputed characteristics are contracting out, freedom to manage (flexibility), improved accounting, personnel management (incentives), user charges, separation of politics and administration, improved financial management and more use of information technology. The debatable characteristics, on the other hand, are legal, budget, and spending constraints, rationalisation of jurisdictions, policy analysis and evaluation, improved

regulation, rationalisation or streamlining of administrative structures, democratisation and citizen participation.

Barberis (1998) wrote that NPM in Britain has been associated with a number of specific initiatives: the creations of Next Step agencies (see also Heald and Geaughan, 1997); Management Information Systems for Ministers (MINIS) (see also Likierman, 1982); the Financial Management Initiative (FMI); the Citizen's Charter; the open government initiative; market testing and many more. These have included a greater emphasis on controlled delegation; value for money within specified cash limits; stronger consumer or customer orientation; the formulation of business plans and agency agreements preserved in formal contracts; and decentralized cost centres, replete with performance targets and performance-related pay, implying the abandonment of central recruitment and common grading structures. Rhodes (1994) wrote:

> ... NPM does not refer to any one idea but to the currently fashionable set of ideas
> driving administrative reform. (p. 144)

Rhodes (1994) wrote that the first thrust of managerial change in the public sector is captured by the acronym of three Es, and the key phrases are 'value for money' and 'better use of resources'. He further maintains that the reforms were based on 'an impoverished concept of management': that is, management is about setting clear objectives, and exercising hierarchical control and coordination.

The rise in NPM has certainly increased regulations and inspection. Thus, the officers and staff at government bodies are subject to various reporting and evaluation regimes to prove that they are working diligently. The question now is whether the reports and evaluation do help them achieve the 3E's? To help the public sector cope with the rigid inspection and evaluation, their regulators have made an effort to provide them with detailed measures and steps that they should take. Does this help them or just create a sector which is not innovative and responsive only to detailed instructions?

Different commentators have written about the phases of development in NPM and share common ground on several themes where NPM have shifted its emphasis from: (i) policy making to management skills; (ii) process-based focus to output-based; (iii) from orderly hierarchies to more competitive bases for providing public services; (iv) from fixed to variable-pay; and (v) from a uniform and inclusive public service to a variant structure emphasizing more on contract provision (Aucoin, 1990; Hood, 1991, 1995; Pollitt, 1993). Hood (1991, 1995) identified seven dimensions of change associated with NPM, summarised in Table 3:

Table 3: Doctrinal components of new public management

No	Doctrine	Typical Justifications	Replaces	Operational Significance	Some Possible Accounting Explanations
PS distinctiveness					
1	Unbundling of the public sector into corporatized units organised by products	Make units manageable; and focus blame; split provision and production to create anti-waste lobby	Belief in uniform and inclusive public sector to avoid under-laps and overlaps in accountability	Erosion of single service employment; arms-length dealings; devoted budgets	More cost centre units
2	More contract-based competitive provisions, with internal markets and term contracts	Rivalry as the key to lower costs and better standards; contracts as the key to explicating performance standards	Unspecified employment contracts, open-ended provision, linking of purchase, provision, production, to cut transaction cost	Distinction of primary and secondary public service labour force	More stress on identifying costs and understanding cost structures; so cost data become commercially confidential and cooperative behaviour becomes costly
3	Stress on private sector styles of management practice	Need to apply proven private sector management tools in the public sector	Stress on public sector ethic fixed pay and hiring rules, model employer orientation centralised personnel structure, jobs for life	Move from double imbalance public sector pay, career service, un-monetised rewards "due process" employee entitlements	Private-sector accounting norms
4	More stress on discipline and frugality in resource use	Need to cut direct costs, raise labour discipline, do more with less	Stable base budget and establishment norms, minimum standards, union vetoes	Less primary employment, less producer-friendly style	More stress on the bottom line
Rules vs discretion					
5	More emphasis on visible hands-on top management	Accountability requires clear assignment of responsibility not diffusion of power	Paramount stress on policy skills and rules, not active management	More freedom to manage by discretionary power	Fewer general procedural constraints on handling of contracts, cash, staff; coupled with more use of financial data for management accountability
6	Explicit formal measurable standards and measure of performance and success	Accountability means clearly stated aims; efficiency needs hard look at goals	Qualitative and implicit standards and norms	Erosion of self-management by professionals	Performance indicators and audit
7	Greater emphasis on output controls	Need for greater stress on results	Stress on procedure and control by 'collibration"	Resources and pay based on performance	Move away from detailed accounting for particular activities towards broader cost centre accounting may involve blurring of funds for pay and for activity

(Source: Hood, 1995, p.96)

The seven dimensions in Table 3 above embedded elements discussed by various scholars and innovators of NPM (Hood, 1991, 1995; Hughes, 1998). The first dimension of change is the division of large and indivisible ministries into smaller units with separate performance contracts, aiming to detach the policy from operational units. The second dimension is about competition in the public sector. The public sector organisations are urged to compete between them and with the private sector. Market principles are adopted through privatisation, commercialisation and market testing. Higher standards and lower cost of services or products can be achieved through this parting of provision (legal authority) from production (technical transformation of inputs into outputs), and competition among diverse producers.

The third dimension is about shifting towards greater use of private corporate sector management practices within the public sector. Having done this could allow public service ethics to move away from military-style to flexibility in hiring and rewards, for example, lateral entry into the public service, performance evaluation and merit pay. The fourth dimension puts emphasis on discipline and prudence in resource use and on an active search for alternative, less costly ways to deliver public services. These means cutting down direct costs, raising labour discipline, resisting union demands, limiting compliance costs to business and, most importantly, the application of information and communication technology, all in the drive to do more with less. Hood (1995) explained that these first four principles distinguish the public sector and the private sector in their area of organisation and methods of accountability.

The fifth dimension is about vigorous control of public organisations by visible top managers exercising discretionary powers. Managers should be given a free hand to manage (Olowu, 2002; Ocampo, 2002). This dimension acknowledges the need for professional management at the very top to wield substantive responsibility to manage and achieve clearly specified goals rather than being administrators whose function is primarily to administer rules. Such positions, if possible, should be contractualised (Oluwo, 2002) so that the manager would only be responsible for specific results. This agrees with the accountability notion which requires a clear assignment of responsibility for action, and not diffusion of power. The sixth dimension is a move towards more explicit and measurable standards of performance for public sector organisations, in terms of the range, level, and content of services to be provided. Goals, targets and indicators of success must be clearly defined and preferably expressed in quantitative terms, justified on the basis of greater accountability in the use of resources. This doctrine focuses on results, outputs and outcomes (Lienert, 2005) for individuals, units and whole ministries and it is in sharp contrast to the tendency to focus on inputs under the traditional public administration arrangement.

The final dimension is about an attempt to control public organisations according to pre-set output measures, particularly where pay is based on job performance rather than on rank or educational attainment. In other words, controls are exercised by mechanisms such as performance and programme budgeting in contrast to line item budgeting and long term planning and strategic management of the organisation. Strategic management is focused on the changing goals that the organisation must achieve in a rapidly changing environment. There is, therefore, an emphasis on the use of SWOT analysis. Hood (1991, 1995) said that these final three dimensions are related to the issue of how far managerial and professional discretion should be fenced in by explicit standards and rules (Hood 1991, 1995).

Gray and Jenkins (1993) posit that the basic beliefs, principles or doctrines of NPM can be summed up in the following terms: accountability, competition, results and efficiency. Dunleavy and Margetts (2000) sum up the NPM paradigm as disaggregation, competition and incentivisation. This constitutes a 'moral crusade' to transform the traditional convention of the public sector (Hewison, 1999) in order to improve performance and service delivery (Gray and Jenkins, 1993). Olowu (2002) compares the old public administration "chestnuts"[3] with NPM doctrines. This is illustrated in Table 4 below:

Table 4: Old public administration chestnuts compared with NPM doctrines

Old Public Administration	New Public Administration
A political Civil Service	Political and accountable management
Hierarchy and rules	Markets are superior to markets, emphasis on contracts, not rules
Permanence and stability	Contractual management
Institutionalised Civil Service	Only small policy and a strategic centre required
Internal regulation	Internal regulation only for the rump of the service, not privatised or decentralised
Equality of outcomes	Differential outcomes

Source: Extracted from Peters (1996) cited in Olowu (2002, p.8)

The NPM challenged the old style public administration which emphasises several central principles for organising public sector services (Olowu, 2002). Each of the old public administration "chestnuts" presents an element of an administrative culture that took over a century to institutionalise in each of the industrialised countries. Therefore, the need for a profound form of administrative reform in each country prevailed. The reform of public service institutions was seen as the foundation of public service in each country as it was crucial for ensuring that the best and brightest in the society worked for the public good (Rouban, 1995; Mosher, 1968). Schick (1999) argues that the NPM reformers, with regard to the management of core functions, did not find the old public administration systems suitable to encourage efficiency. While the NPM targeted compliance with such systems the traditional reform targeted managerial malfeasance or incompetence (Keating and Holmes, 1990). Moynihan (2006) summarises the logic of NPM reform common to the benchmark countries as follows:

> Traditional public management systems provide only limited types of information, which act to discourage efficiency. Managers are provided with a list of inputs-budgeted appropriations – which they are obliged to spend. Financial controls are centred on controlling these inputs, ensuring that money is spent for the purpose for which it is allocated. Managers lack the discretion to reallocate the money they have received, if reallocation could foster more effective and efficient achievement of goals. Personnel controls reinforce financial controls, restricting the ability of the manager to make decisions about human resources. (p.79)

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[3] Chestnuts is a terminology originally used by Peters (1996) to refer to the basics of the old style public administration.

Moynihan (2006; 1998) also maintains that there are no incentives for the individual or organisation to deviate from existing controls toward more efficient performance but rather there are disincentives. For example, where an agency manages some savings from efficient budget execution, those savings are not retained by the agency but re-appropriated to the entire government. Therefore, it is common practice that agency administrators are likely to seek more than they need to cover costs in their budget proposal and then spend the remaining money before the end of the budget cycle to avoid losing unspent appropriations and receiving lower allocations in the future. Hence the definition of accountability underpinning these control systems was devoid of goal achievement, technical efficiency, or programme effectiveness instead of focusing on legal compliance, probity and error avoidance.

2.3.3 Impacts of the NPM

Some empirical studies show that NPM may lead to improved performance in the public sector. Van Helden (1998) indicates that the introduction of an improved management information and control system (known as 'BBI'-system) has led to a more favourable assessment of eight Dutch municipalities' by its managers and politicians. Miah and Mia (1996) also claim that the decentralisation of decision making offices in five Central Government Departments in New Zealand appeared to lead to an improved performance only when the decentralisation efforts were associated with an increased use of accounting control systems by district offices.

Ogden (1995), in investigating the ways in which accounting and accounting information has contributed to and shaped processes of organisational change in the ten Regional Water Authorities of England and Wales, comments that this area of public sector reforms as having been successful. This assertion is confirmed by the Government White Paper of 1986 (paragraphs 35, 38) in which the Government had praised the Water Authorities for their "improved financial performance" and transformation into "ten modern businesses"; and were considered "capable of standing independently as commercially viable entities".

Bale and Dale (1998), indicate the success story of New Zealand public sector reform. According to the authors the core sector reforms in New Zealand have succeeded in improving both service delivery and efficiency as the system is wholly supported by departmental managers. The writers claim that performance has generally improved in tandem with the development of wage scales linked to performance, and savings from better cash management have been substantial enough to cover all the system's costs of the reforms. Moreover, the extensive un-appropriated expenditures have now disappeared and cost per unit of output has declined, in some cases quite markedly, as confirmed by Deloitte et al. (1990).

Some empirical studies cast considerable doubt on the effectiveness of NPM for improving organisational performance. For example, in New Zealand, most of the values of the NPM reforms introduced by a new system of delegated budgeting in a hospital appeared to be effectively resisted by the absorbing role of the clinical director (Jacobs, 1995). Pettersen (1995) also confirmed that in Norway, budgeting control measures do not seem to have contributed significantly in reducing health care expenditures. Lapsley (1994) notes that decentralisation of National Health Service reforms which was aimed at introducing responsibility ('Grey Book' recommendations) accounting, the decentralisation efforts in the central government as proposed in the Fulton Report (1968) and the Financial Management Initiative (1982), all in the UK, have initially not been successful.

Peters (2001) and Fusarelli and Johnson (2004) ask an important question: does NPM, which stresses on satisfying individual needs adequately and sufficiently meet the public needs as a whole, or does NPM satisfy the common good and dilute the public purpose of public organisations? As NPM emphasises accountability and privatisation and requires public administrators to become entrepreneurs, Peters (2001) questions the demands of public entrepreneurship as they conflict with democratic theory and public policy. In effect, NPM, according to several critics, may not be adequate to ensure the common good or meet the essential needs of society (Brown and Contreras, 1991). Fusarelli and Johnson (2004) therefore argue that education reforms based on market mechanisms may be inappropriate as public school managers see such public institutions' mission as a moral one focusing on cost and benefit analysis rather than economics. This idea confirms that of Fry (1989) who argues that the public administrators' activities are quite different from those of the private sector administrators, in that the latter's effectiveness is judged by the extent of its profit margin while the effectiveness of the former is difficult to measure.

Sawicky (1997) maintains that markets and business organisations often fail miserably in promoting social welfare as they do not often do well in satisfying public wants. He notes that contracting out educational services to private companies to date has not yielded any fruitful results in improving schools. Similarly, privatisation ideology which suggests that business will always do better, according to the writer, is false. The author points out that because educational outcomes are diverse and complex, neither easy to define nor to measure to aid assessment and analysis; and due to their loosely coupled nature, it is difficult for private sector firms to operate effectively.

Le Grand and Bartlett (1993) note that quality in service provision may fall as aspirational professional standards are increasingly compromised with minimalist, economizing managerial standards. Again, NPM's emphasis on cost reduction may promote the pursuit of efficiency in flawed policies with short-term gains to the detriment of a long-term perspective and gains on issues such as education, technology, health and environment. The authors

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therefore caution that, in seeking to transfer NPM to less developed countries, due consideration should be taken particularly when these delicate issues are concerned.

The critics of NPM lament the collapse of the welfare state and also point out that NPM has promoted inequality as market-type mechanisms produce "market-niche-seeking" behaviour by public service providers. For example, health care doctors may seek to avoid those socio-economic groups most prone to illness, while good secondary schools may bias their entry requirements toward the children of parents of higher socio-economic groups (Pollitt, 1994). Mackintosh (1997) therefore argues that the cultural and organisational change in social provision, expressed in the concepts of markets and individualism, may create conditions of social exclusion and such reforms may harm those in need of state provision like the poor and the vulnerable. Critics, including Dunleavy and Hood (1994), maintain that NPM may encourage self-interest and corruption as policy makers and senior bureaucrats opt for privatisation and contracting out because of increased opportunities for rent-seeking and other forms of misbehaviour. Critics also argue that NPM has caused a fall in ethical standards in public life with the growing incidence of greed, preferential treatment and conflicting interests. The adoption of NPM may lead to more abuses and arbitrary use of discretion in less developed countries (for example in contracting) where patronage systems are more prevalent and accountability mechanisms are weak.

Pollitt (1994) observes that, in practice, NPM techniques may work better in some areas of the public sector than in others. One should bear in mind that the public service sector covers a wide variety of activities, some of which have high technological content while others have low; some are person-centred (e.g. health and education) and some are not; some are competitive, but for some it is very hard to remould them into a competitive set up. The ability to sort out these differences is important, because they increase or decrease the probability of NPM being a "good fit" in less developed countries or otherwise. For example, public sector reforms in less developed countries have been externally driven by donor institutions with their stringent conditions and bound timetables (Uddin and Tsamenyi, 2005). Therefore these countries have been adopting comprehensive reforms looking for quick positive results without taking into account existing institutional and management capacities. This has not gone well, as in most cases the administrative and management capacities have been overstretched by these reforms coupled with the volatile political environment existing in some of those countries.

Therkildsen (2000) maintains that a country needs to assess realistically its present and foreseeable political and economic realities before it adapts wholesale the NPM concept which is perceived to improve service delivery, since countries differ widely in terms of their institutional conditions and their capacity to implement public sector management reforms based on NPM concepts. Therkildsen, therefore, recommends to less developed countries

that in implementing NPM the affected country must be sensitive to operational reality since certain characteristics of less developed countries, such as malfunctioning of markets, scarcity of resources, and external dependence, play a major role in negating the operation of NPM reforms. According to Larbi (1998), countries that want to implement NPM principles and practices in their public sector reforms have to critically consider and answer questions of *how* to implement rather than just *what* to implement. Hence the argument about the application of NPM to less developed countries should not be whether it is good or bad, right or wrong but needs a careful consideration of the context, and whether or not prevailing contexts or conditions are suitable (Caiden, 1994; Turner and Hulme, 1997). Adequate attention must also be given to appropriate arrangements for implementation other than focussing on the policy content (Brinkerhoff, 1996).

Rhodes (1994) claims that the administrative reform breeds more cynicism than efficiency and effectiveness and outlined four interrelated trends to support the claim:

(1) Privatisation and limiting the scope and forms of public intervention;
(2) The loss of functions by central and local government departments to alternative service delivery systems;
(3) The loss of functions by British government to European Union institutions;
(4) Limiting the discretion of public servants through the new public management, with its emphasis on managerial accountability, and clearer political control through a sharper distinction between politics and administration. (pp. 138-139)

Power and Laughlin (1992, p. 133) wrote that central to the change of modes in public management was a shift towards *"accountingization"* – the introduction of ever more explicit cost categorization into areas where costs were previously aggregated, pooled or undefined. Hood (1995) argued that this shift is part of a broader shift in the doctrines of public accountability and administration. He claims that the accountability paradigm of progressive public administration emphasized heavily on two basic management doctrines:

(i) to keep the public sector sharply distinct from the private sector in terms of continuity, ethos, methods of doing business, organizational design, people, rewards and career structure;
(ii) to maintain buffers against political and managerial discretion by means of an elaborate structure of procedural rules designed to prevent favouritism and corruption and to keep arms-length relations between politicians and the entrenched custodians of particular public service "trusts". (p.94)

This new concept of accountability will use accounting as the key element because it reflected high trust in the market and private business methods and low trust in public servants and professionals, whose activities therefore need to be more closely costed and evaluated by accounting techniques (Hood, 1995). Barberis (1998) conclude that the NPM may not be the root cause of the disparity between the doctrine and the reality of accountability, but has further exposed the *accountability gap* in the public sector. He said that NPM has accelerated the need to reconstruct the traditional doctrine of ministerial responsibility to allow for some direct accountability of civil servants, especially the senior officials.

Hood (1990, p. 212-213) suggests that NPM deserves further inquiry and debate and discussed four possible 'loose ends' to the NPM. Among these are concerns over losing traditional public service ethics, loyalty to the public service as a whole and resilience to political crisis when emphasizing on NPM. It is argued that political accountability involves greater than just achieving one-line results, and NPM accounting can reduce accountability by making processes more ambiguous. There is also a problem in reconciling the Taylorist and 'new institutional economics' NPM ideas. The Taylorist idea is manipulation from the top, or the controlling centre, but the NPM notion is about public choice, decentralist and consumer oriented. Another issue is about where the NPM revolution would stop, at what level of competitive environment, because there is no limit in its possibilities. And finally the issue of ambiguity in what exactly is the kind of public services that the NPM revolution aims to produce.

The NPM has had its champions and its critics but, whether for good or ill, it is widely held to have escalated the challenge to traditional canons of public administration (Dunleavy and Hood, 1994; Hughes, 1994; Massey, 1995; Pyper, 1995). Metcalfe and Richards (1991) commented that a reform of such would drag British government to the old management style of high bureaucracy and centralization. Accounting has been used as a means for change throughout the public sector although researchers have diverse opinions on the power of accounting to do so (Broadbent and Guthrie, 1992).

Having explored public sector and NPM, the next section discusses governance in the public sector for which audit has been extensively utilised.

2.4 Public Sector Governance

Public Sector Audit → New Public Management → Public Sector Governance → Accountability → Performance Measurement → Transparency

REVIEW I
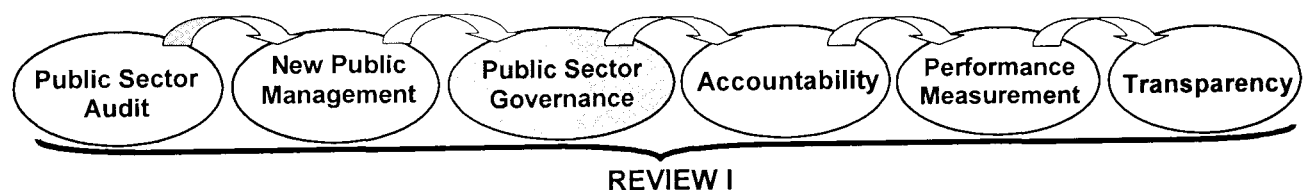
2.4.1 Audit and Public Sector Governance

Audit of the public sector is necessary to safeguard public money and help public services achieve value for money. It also plays an essential role in maintaining confidence in the stewardship of public funds and in those to whom the funds are entrusted. In other words audit is a cornerstone of good public sector governance (The IIA, 2006). Public sector governance includes the policies and procedures used to direct an organization's activities to provide reasonable assurance that objectives are met and that operations are carried out in an ethical and accountable manner. Governance is also related to the means by which goals are established and accomplished and includes activities that ensure a government's credibility, establish equitable provision of services, and assure appropriate behaviour of government officials, thereby reducing the risk of public corruption.

Given their duties, public sector auditors should be accountable for their performance and are duty bound to undertake their work in a professional, objective and cost-effective manner and with due regard to the needs of the organisation's stakeholders. By providing unbiased objective assessments of whether public resources are responsibly and effectively managed to achieve intended results, auditors help government organizations achieve accountability and integrity, improve operations, and instil confidence among citizens and stakeholders. The government auditor's role supports the governance responsibility of oversight, insight, and foresight (IIA, 2006). Oversight addresses whether government entities are doing what they are supposed to do and serves to detect and deter public corruption. Insight assists decision-makers by providing an independent assessment of government programs, policies, operations, and results. Foresight identifies trends and emerging challenges. To fulfil each of the roles, auditors use financial audits, performance audits, and investigation and advisory services as tools.

Hodges et al (1996, p.7) explain that an authoritative definition of 'corporate governance' in the context of public services is not available, although many agree that it is about the procedures associated with: (i) decision-making, performance and control of organisations; and (ii) providing structures to give overall direction to the organisation and to satisfy reasonable expectations of accountability to those outside it. The term that is commonly used for governance in the literature is 'corporate governance' because this mainly considers companies and corporations. According to Tricker (1984, p.7), while management is about running the company, corporate governance is about ensuring the company is run properly.

Corporate governance is defined by the Cadbury Report (1994) as the system by which organisations are directed and controlled. All organisations would need to be governed, managed and controlled, thus corporate governance is very important. Separation of ownership from control of the organization is the origin of concerns about corporate governance and accountability issues (Hodges et al, 1996). Flint (1988) wrote that the link between corporate governance and audit is consistent with the societal approach to the corporate audit function, which holds that its principal task is perceived as one which assists in corporate governance and managerial accountability. Keasey and Wright (1993) suggested that corporate governance concerns the structures and processes associated within an organization while accountability involves monitoring, evaluation and control of organizational agents to ensure that they behave in the interest of shareholders and other stakeholders. Therefore, accountability is a sub-set of corporate governance. Figure 6 is a diagram on regulatory framework by Keasey and Wright (1993). The framework emphasizes two main concerns in corporate governance which arise from the separation of ownership and control in large companies. The first concern is the need for supervision and monitoring of the executive and the second concern is the mechanisms for ensuring that management is accountable to shareholders and other stakeholders. The framework includes the

involvement of auditors as independent third parties and links the accountability problems of the auditor's role and the expectations that arise from audit activities with the supervisory role of non-executive directors through audit committees. Audit committees will be discussed in subsection (2.4.2) to this discussion because these are included in the performance measurement of local government.
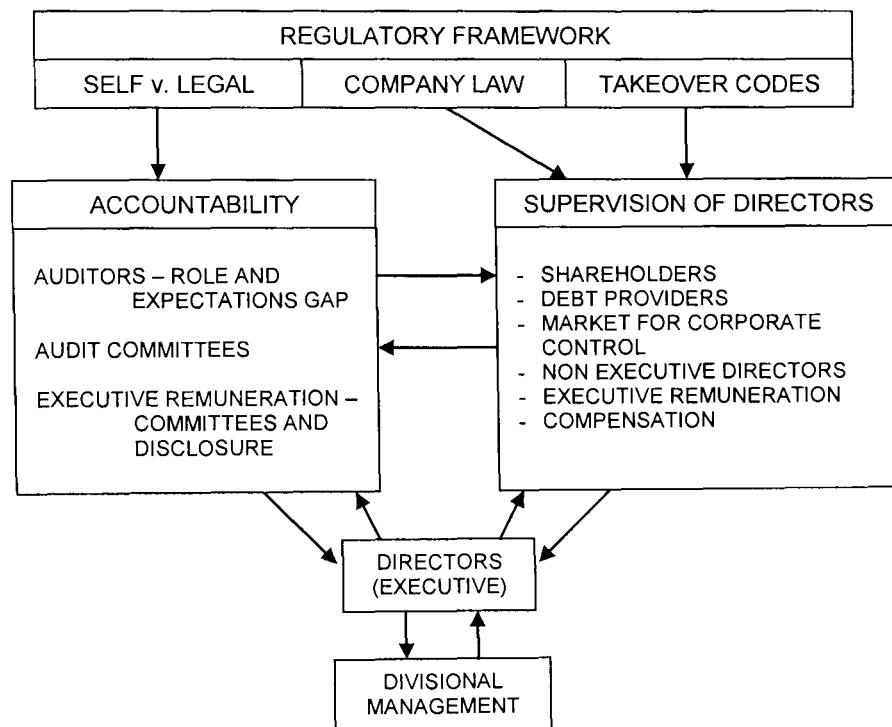
Figure 6: The Corporate Governance Framework, reproduced from Keasey and Wright (1993)

The diagram suggests that corporate governance is achieved through a regulatory framework. The inspection activities performed in the public sector are also widely termed as 'regulation'. Hood et al (1999) wrote that we live in the age of the 'regulatory state'; suggesting that modern states are emphasizing more on the use of authority, rules and standard-setting, partially displacing an earlier emphasis on public ownership, public subsidies, and directly provided services. The regulatory framework for local government includes various inspection activities designed by the Audit Commission to reflect local authorities' performance. The inspection activities are designed to serve as a driving force towards the three E's, organisations that are able to provide high quality services for the public. Besides achieving the three E's, local authorities have to also exhibit their achievement so that the public are confident with local authorities' commitment and achievement. The combination of all these factors gives rise to the needs for an independent party to inspect, report and certify that the authorities have achieved their intended purpose. Thus the Audit Commission have been granted the authority for inspection and certification of local government. The issues of regulation in the public sector will be discussed further in section 2.4.3

2.4.2 Audit Committees

Good corporate governance requires independent, effective assurance about the adequacy of financial management and reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors (CIPFA, 2005). To govern local authorities, the Local Government Act 2000 specifies that all local authorities should have an executive (this could be a directly elected mayor with a cabinet, or a cabinet with a leader, or a directly elected mayor and council managers) and one or more scrutiny committees. Marrian (1988) defines an audit committee as a committee of the board which normally comprises of three to five directors with no operating responsibility in financial management. The primary tasks of this committee are to review the financial statements, the effectiveness of the company's accounting and internal control systems, the findings of the auditors, and to make recommendations on the appointment and remuneration of the external auditors.

Establishing an audit committee is not a requirement of local government although audit committees have been a feature of public sector for some time (CIPFA, 2005). Local authorities are given flexibility in organising their audit committees depending upon the specific political and management arrangements in the authority (CIPFA, 2005). However, a council is required to "ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions" (ODPM, 2003). The Local Government Act 1972, Section 152 also requires local authorities to make arrangements for the proper administration of their financial affairs. The chief financial officer (CFO) is key to discharging these requirements and in fulfilling the requirements effectively, the CFO requires an effective audit committee (CIPFA, 2005). The purpose of the audit committee in local government is "to provide assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process" (CIPFA, 2005, p. 9).

Companies are motivated to form audit committees voluntarily because of the extensive benefits they bring (Collier, 1997). Having an audit committee in a company would bring benefits to many; the board of directors, the non-executive directors, external auditors, internal auditors, internal control functions and to shareholders as well as other users of financial statements. Simnet et al (1993) found that audit committees improve (or maintain) the quality of financial reporting process, aid the actual and perceived independence of the internal and external auditors, and improve the confidence of the financial statement user in the quality of financial reports. Recognizing the usefulness of audit committees to support governance, financial reporting and performance of the whole authority, CIPFA published a practical guidance for local government to assist in implementing an effective audit

committee. The UoR also sets a challenge to each local authority to ensure that its audit committee works effectively.

Audit committees at some local authorities have evolved from ad hoc committees (with few defined responsibilities) but this development is not reflected across local government as a whole (CIPFA, 2005). Thus CIPFA has encouraged local authorities to maintain an effective audit committee because it:

- raises greater awareness of the need for internal control and the implementation of audit recommendations;
- increases public confidence in the objectivity and fairness of financial and other reporting;
- reinforces the importance and independence of internal and external audit and any other similar review process (i.e. providing a view on the Statement of Internal Control);
- provide additional assurance through a process of independent and objective review.

(CIPFA, 2005, pp. 9-10)

The core functions of audit committees at local authorities are related to four aspects:

1. *Internal Audit* – the audit committee will have a clear role in relation to the authorities' internal audit function. The functions include: (a) formally approving (not directing) the overall strategy to ensure that it meets the authority's overall strategic direction; (b) approving the annual programme of audits; (c) monitoring progress against the plan and assessing whether adequate skills and resources are available to provide an effective audit function. The audit committee's role to review the work carried out will include formal consideration of summaries of work done, key findings, issues of concern and actions resulting from audit work. The audit committee also would judge the effectiveness of internal audit by receiving feedback on the work carried out. A key part of the role is receiving and reviewing the annual report from the head of internal audit in order to reach an overall opinion on the internal control environment and the quality of internal audit coverage. The head of internal audit also provides independent assurance to the audit committee.

2. *External Audit and Inspections* – the audit committee will receive and consider the work of the external auditor, comment on the inclusion of any audit work and should receive reports following completion of the work to monitor action taken. The audit committee also should (a) contribute to the authority's response to the AC's annual audit and inspection letter, reports and opinion, and also should consider and express opinion on the selection and rotation of the external auditor; (b) have opportunity to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship; (c) have access to inspection reports from inspection agencies as a source of assurance and to compare with any relevant internal audit and external audit reports; (d) ensure that it is aware of the work of scrutiny and other committees so that it can take account of issues relevant to it area of interest; (e) ensure that

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there is effective working between all audit and inspection functions to maximise the value of the review function to the authority.

3. *Control Strategies* – the audit committee should take review the strategies adopted by the authority's to regulate its activities and control the actions of its employees, elected members and contractors, whether the strategies have been properly formulated and remain effective. The strategies to be overseen by the audit committee will include (a) risk management; (b) the assurance framework, including the production of the Statement of Internal Control (SIC); (c) legal codes of corporate governance, standards and behaviour; (d) arrangements for delivering value for money (VFM); (e) anti-fraud arrangements; (e) anti-corruption arrangements including the authority's whistle-blowing guidelines. By reviewing the strategies, the audit committee will be in position to monitor the action recommended by auditors and inspectors and agreed and implemented by officers to improve the situation, and able to monitor changes to the risk environment and guide any associated actions.

4. *Financial Statements* – the audit committee should review the financial statements (i) before they are approved under regulation 10 of the Accounts and Audit Regulation and (ii) concurrent with the external auditor's SAS 610 (ISA 260) report to those charged with governance subsequent the completion of the audit. In reviewing the financial statements, the audit committee should focus on (a) the suitability of accounting policies and treatments; (b) any changes in accounting policies and treatments; (c) major judgemental areas such as provisions; (d) significant adjustments and material weaknesses in internal control reported by the external auditor.

(CIPFA, 2005, pp. 13-17)

Although an audit committee is said to bring extensive benefits, there are some reservations. Collier (1997) wrote that the claimed advantages of audit committees are not always realized in practice and that the support for audit committees is based upon anecdotal information on their effectiveness rather than objective evidence. Menon and Williams (1994) research findings showed that companies which had formed an audit committee were often reluctant to rely upon it and concluded that audit committees are often created for the purpose of appearances rather than to enhance stockholders' control of management.

Several studies (Verschoor, 1989, 1990; Campbell, 1990) which explored the ineffectiveness of the audit committee in corporate failures confirmed the reservation about audit committees. Vicknair et al (1993) identified one possible reason for the limitations in effectiveness of audit committee as the existence of 'grey' area directors, who are not wholly independent of management, which may undermine the position of audit committees as truly independent corporate governance entities and jeopardize auditor independence.

Industrialists and academics also raised questions about the possible dangers brought by the operations of audit committees. Collier (1992) identified the following four main dangers:

(1) encroachment on the functions of the executive and dilution of executive authority;
(2) diversion of non-executive directors from their strategic and other roles;
(3) creation of divisiveness between the executive and non-executive directors; and
(4) reduction in the contact between the auditors and the main board.

(pp. 11-12)

Hood et al (1998; 1999) argue that regulation as a means of governance for the public sector has increased in its scale, affecting both auditors and local government. To understand the impact external auditing or regulation has had on local government, the model of regulation introduced by Hood et al (1999) will be applied. The following section will review regulation inside government and link this to the audit of local government.

2.4.3 Regulation inside Government

'Regulation' is generally used to mean governing, the ways in which public purposes are decided on and implemented; however, it has taken on a more specific meaning as achieving public goals using rules or standards of behaviour backed up by the sanctions or rewards of the state (James, 2003). Regulation in that sense has always been thought of as what government does to businesses (Wilson, 1980; Hancher and Moran, 1989; Noll, 1989; Foster, 1992; Majone, 1994; Ogus, 1994).

Hood et al, (1998) wrote that regulation inside government is hard to define with precision and suggest the following concept:

'the way public organizations are subject to influence from other public agencies operating at arm's-length from the direct line of command and endowed some sort of authority over their charges'

(Hood et al, 1998)

In Hood et al (1998; 1999), regulation inside government (in UK) is described as consisting of three basic features; one bureaucracy aims to shape the activities of another; there is some degree of organizational separation between the 'regulating' bureaucracy and the 'regulatee'; and the regulator has some official mandate to scrutinize the behaviour of the regulatee and seek to change it.

Nowadays, government itself is also subject to regulation by a large and diverse body of 'regulators'. Many literatures have explored the ways government regulates itself through a range of bodies which set standards for public sector organisations, monitoring them and seek to bring about compliance with those standards (Hood and Scott, 1996; Hood et al 1998, 1999; 2000). Regulators common to private sectors like auditors, inspectors, licensing bodies, competition and fair trading authorities are now scrutinizing and overseeing the public sector (Hood et al, 1998). In addition, public sector organizations are being watched by further specific regulators including systems of audit, grievance chasing, standard setting,

inspection and evaluation. These make a typical public bureaucracy face scrutiny by a growing army of waste-watchers, quality checkers, 'sleaze-busters' and other regulators (Hood et al, 1998).

The reform in UK public management since the 1970s is meant to ease management from excessive rules so they can add more value to public services, and make management in government like that in businesses. However, the supposed flexibility in management specified to public managers has been compensated by stricter regulations; increased formality, complexity, intensity and specialization over the past two decades (Hood et al, 1999).

The rhetoric of public services reform by reducing 'red tape' and allowing managers' greater discretion has led to an increase in formal public sector regulation (James, 2003). This has added to the procedural constraints and 'second guessing' faced by public managers (James, 2003); increasingly formal controls that are contrary to the cutting down of red tape (Hoggett, 1996). Power (1997) argues that the search for auditability associated with declining trust in traditional styles of professional self-regulation has produced a formalized self-regulation. Increased regulation has been accompanied by decreases in managerial discretion (Hood et al, 1998).

Hood et al (1998) wrote that regulators use a range of methods to shape the behaviour of their charges, running from the role of official whistle-blower, able to do no more than draw public attention to lapses or problems, to the role of 'terminator', able to close down an organization deemed to be failing (or to impose financial surcharges and disqualifications from office on local councillors and officials). Some regulators are more separated from their charges than others and their mandates also vary. Some regulators have statutory authority, some are established by Order in Council, and many have no formal mandate other than what is assumed to be the policy of the government of the day.

Regulation is a multi-faceted concept and is used interchangeably with concepts associated with specialist practices such as audit, inspection and scrutiny (Kelly, 2003; Boyne et al, 2002). Regulation is also practised through advice and guidance from regulatory bodies, professional organizations and government departments on how organizations should act in order to comply with their regulatory regime. The ideology of NPM itself emerged from private sector practice, popularly summarised for public sector practitioners by Osborne and Gaebler's 'Reinventing Government' (1992).

The change in public management has been recognized by various academic literatures. Public bodies are required to focus more on strategic goals, rather than just delivering services (Hoggett, 1996). Increased accountability of public service organizations by

judgments made on their achievements, usually by performance measurement of outputs and outcomes (Hood, 1991). Public bodies may serve consumers better by encouraging greater actual or quasi competition, either by privatization, contracting out or by employing outside contractors (McSweeny, 1988; Stewart and Walsh, 1992).

Overlaps and grey areas of regulation are unavoidable; there are direct oversight of public bureaucracies by legislators and the oversight exercised by law courts besides the regulation by the AC (Hood et al, 1999). The example provided by the authors is whether Britain's administrative tribunals should be considered as a specialized administrative courts or bureaucratic regulators? Where is the drawing line between internal chain of command structures and external regulation? Some heads of public organisations may welcome the arm's-length regulators to influence their organizations and bring extra pressure to push on problematic individuals or unit within their domains. Another grey area that is problematic to draw the borderline is between regulation and advice. Some organizations may only have the power to advise. However, the AC may give advice but later enforce punishments through the scoring for performance if the public bodies did not follow their advice. Hence, should the AC be considered as giving advice or instructions because of the nature of their advice which always requires public bodies to follow? These considerations might influence local governments' actions towards performance indicators established by the AC and thereby alter their priorities.

Regulation inside government starts from the oversight of one public bureaucracy by another, but private actors also appear in the process because the AC appoints private accountancy firms to conduct some of the local authority audits. In measuring for scale and growth of regulation inside government, Hood et al (1999) wrote that they recognize its fuzzy boundaries. Even though regulation inside government is not very clear in terms of its boundaries and authorities among bodies of regulators, it has become a familiar phenomenon to every public servant. Public managers and officials are exposed to multiple regulatory influences over their working life and day to day routine besides regulation from their immediate bosses in the chain of command. However, at times the regulation through performance indicators enables immediate bosses in the chain of command to encourage their officials to work and justify their actions to local authorities' elected members.

2.4.3.1 Scope, scale and modus operandi of regulation inside government

Hood et al (1998)[4] outlined three main themes of scope, scale and how regulation inside government works:

1. Regulation inside UK government, (taken together all its forms) amounts to a large enterprise, approaching, if not exceeding the scale of regulation of private businesses.

2. Internal regulation of government seems in many of its domains to have increased in formality, complexity, intensity and specialization over the past two decades.

3. The behaviour of regulators inside government seems to be related to how close they are to those they oversee in professional/social backgrounds.[5]

All the three themes may put pressures on public managers and open rooms for variations in control regimes imposed by regulators upon regulatees. UK government invests more resources (staff and public spending) in regulating itself than it does to regulate the privatised utilities (Hood et al, 1998). The scale of investment in the regulation of government is close to the total of private sector regulation even on the most restrictive definition of the public sector at national government level (Hood et al, 1998; 1999). This means more tax-payers money being channelled to regulation and less money for other core activities. The authors also wrote that the increased numbers of regulatory organisation inside government has also substantially escalated their claims on public budget. Hence, the cost effectiveness of enhanced regulation is arguable.

Hood et al (1998; 1999) evidenced that the number of regulating staffs was then increasing while public sector organisations were downsizing. This situation raises questions as to how does the government body cope with their activities when their size keeps on decreasing and at the same time they are being strictly watched and subjected to many rules and regulations. Spending more on regulation and less on other activities would possibly limit the government bodies' spending on training or hiring better-skilled staff to enhance their performance. Besides that, the staff of local authorities will be kept busy with adhering to regulators requirement than their core responsibilities.

In supporting their arguments, Hood et al (1998; 1999) estimated that the number of regulatory organizations in the UK public sector ranges from about 130 to over 200 and that

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[4] They conducted their study through exploration and in-depths interviews with regulators and regulatees to reveal scope and scale of regulation inside government, to discover how regulations work inside government and how it altered with the 'New Public Management' (complex of changes in public service organization).

[5] In general, they found the more distant regulators are from their client in backgrounds, the more formally they behave (in the sense of non-participatory standard-setting, rule-bound regulatory behaviour and heavy reliance on formal reporting and sanctioning, rather than participating, discretionary regulation with co-operative methods for gathering information and modifying behaviour) (Hood et al, 1998).

estimated regulatory staff runs from almost 14,000 to 20,000. The running costs were estimated at £800m to £1 billion. These costs (which could be more now) are only the direct costs of internal regulation (staffing and operating costs for the regulatory bureaucracies). From their examination on expenditure over the past two decades, they found that the level of central government regulators spending had increased by a factor of at least two on the regulation of local government. Spending on public audit bodies has at least doubled; it has increased by a factor of three for inspectorates and has grown at least fourfold for some other regulatory organizations.

Hood et al (1998) also maintain that this is the most visible part of the iceberg of regulatory compliance. If the other part of costs incurred in complying with the regulations (i.e. the compliance cost) faced by regulates is considered, it will add substantially to the overall costs of regulation inside government. It is also possible for compliance obligations to change (usually in the direction of imposing much greater costs on regulatees) without any substantial change in the administrative inputs of the regulators (Hood et al, 1998). From their interviews and other material, they suggested that the growth in compliance costs was commensurate with, or even greater than, the growth in direct cost of regulation inside government.

Those costs are only estimates because they are not routinely collected across government as a whole (Hood et al, 1998). Does this mean that governments do not expect the costs of regulations to be this high or that they perceive that the results they will get from enhanced regulation outweigh the money and time spent? From their interviews, they found that regulators tended to turn a blind eye to the compliance costs, claiming that compliance costs were not an issue in the public sector and therefore did not need to be measured. However, they also noted that this view was not shared by those who are being regulated.

Hood et al (1998) also evidenced that regulation inside government was not just substantial business but also expanding. They examined the number of regulators from 1976 to 1995 in different parts of the UK public sector and found growth in all sectors, with stronger growth in the body-counts of organizations in local government. They estimated the overall staff increase in regulatory bodies inside UK government was 90% between 1976 and 1995 and this growth contrasts sharply with what happened to staffing in the public sector as a whole, with a fall of more than 30% in total civil servants and over 20% in local authority staff (Hood et al, 1998, quoted from Cabinet Office, 1995; DoE, 1996b).

Regulation inside government is not just large and growing but also diverse in several senses (Hood et al, 1998). The regulators were found to pursue various and sometimes conflicting goals, with no sense of belonging to any overall community, and with no central point in the government machine capable of, or responsible for, gauging the overall size and

growth or reviewing how it operates. From the 134 regulators within the UK public sector included in their study, over 60% of organizations, over 75% of the staff and over 80% of spending were devoted to oversight of organizations outside the core of central government, and many more resources devoted to the regulation of local than central government. They also found, the social 'distance' between those who regulate and those who are regulated tends to be greatest in the public sector, and regulatory behaviour tends to be most formal (as in the case of central government civil servants regulating local authorities). Some regulators or overseers in government bodies came from the same professional and social backgrounds as their clients, their roles being reversed when they move on with their career and change jobs.

2.4.3.2 Features of regulation inside government

Hood et al (1998; 1999) offered three basic dimensions (James, 2003 described these as 'features') of regulation inside government to comprise the followings:

- one bureaucracy aims to shape the activities of another (the regulator has a degree of authority over the regulated bodies and sets standards for them);

- organizational separation between the regulating bureaucracy and the 'regulatee' (organizational separation of regulators and regulated bodies, so regulation is distinct from internal management within an organization);

- some official mandate for the regulator organization to scrutinize the behaviour of the regulatee and some authoritative basis for changing it (the regulator monitors performance and uses persuasion or direction over the regulated bodies to change their behaviour).

Regulation inside government is a subset of the broader context of control over bureaucracy and there are many ways to classify various mechanisms usable to keep public bureaucracy under control (Hood et al 1999). Oversight comes in various forms; self conscious oversight is also different from the inspector-free control over bureaucracy. Self conscious oversight or comptrol (Hood, 1996) is when the system is held within limits without overt controllers in the form of official overseers, the bureaucratic version of Adam Smith's hidden hand. However a hidden hand is not the sole determinant for exchange process of a market, because culture also generally regulates human behaviour. Hood et al (1999) wrote that it is important to distinguishes 'comptroller' and 'inspector-free control' because the main lesson of cybernetic analysis for bureaucracy is that a system can be under control without having identifiable overseers and that, in any complex system, control cannot be affected by simple steering alone, but must in large measure constitute of self controlling mechanism (Beer 1965; Dunsire, 1978; Brans and Rossbach, 1997). Hood et al (1999) concentrate on four types of controls; oversight, mutuality, competition and contrived randomness, as shown in Figure 7.

CONTRIVED RANDOMNESS (CONTROL THROUGH UNPREDICTABLE PROCESSES OR PAYOFFS)	OVERSIGHT (COMMAND AND CONTROL TECHNIQUES)
COMPETITION (CONTROL THROUGH RIVALRY AND CHOICE)	MUTUALITY (CONTROL THROUGH GROUP PROCESSES)
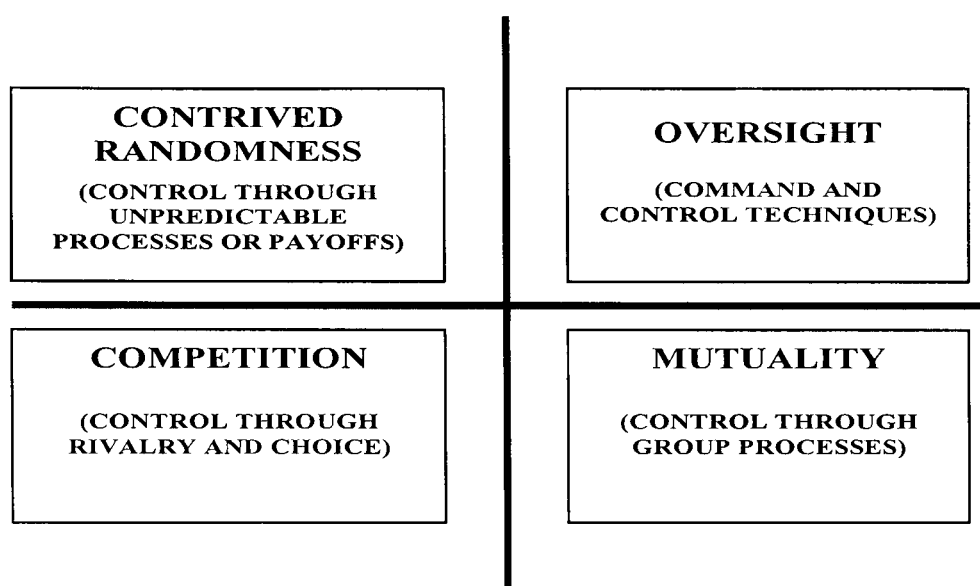
Figure 7: 'Oversight' and Three Other 'Inspector Free' Types of Control Over Public Management (different mechanisms used to keep public bureaucracy under control
(Source: Hood et. al., 1999)

'Command and control styles' of regulatory intervention can possibly produce unintended side effects or even reverse effects through functional disruption of the system being regulated (Hood et al, 1999, quoting Teubner, 1987; Sieber, 1981). However, the problem of excessive or over-legalistic intervention has been much less discussed for regulation of government than for regulation of society at large (Hood et al, 1999; with exception to Laughlin, 1996).

Competition is recognized as one important inspector-free control over public bureaucracy, also aimed to promote competition within and among bureaucracies. Competition is common in the British civil service for promotion purposes. Competition is also achieved by generating a ranking based on performance which is common among universities. Similarly, competition among departments, agencies and other units for 'turf', budgets, and the policy limelight that is commonly argued as a key element for maintaining external control over bureaucracy. However, there is some doctrine that competition within the public service is wasteful and disruptive. For those of a 'public-choice' persuasion, a gram of competition in bureaucracy may be viewed as worth a tonne of regulation through oversight. The star-ranking system for CPA introduced for local government supported this control feature.

Mutuality works in the opposite way to oversight because, through mutuality, a group will influence individuals. Hood et al, 1999 borrowed an example from a classic study by Hugh Heclo and Wildavsky (1974); seeing mutuality as an informal oversight-central regulatory process from Ministers or Parliament to govern the behaviour of top civil service in Britain. This resembled a small 'village world', with the villagers' intent to pursue reputation among their peers and rating their colleagues. Regulating through mutuality will work when everybody in the group knew what should be achieved. However there is an issue of

mutuality being built into formal structures of consultation or group decision making, through board or collegial structures. The system of committee that is pervasive in Britain seeing individual action being restrained by group decision-making and the climates of expectation and mutual obligations that those committee structures generate.

Contrived randomness acts as a check on behaviour by making outcomes and operating conditions unpredictable. Contrived randomness works with not telling employees on what job, which organization, which location and with whom they will be working in the future. With this, they will not have the opportunities for joining up 'scams' or corrupt anti-system conspiracies at any level. Contrived randomness is obvious in the operation of imperial bureaucracy, tax bureaucracy, and large field structures in many kinds of organization, including churches and multinational corporations. In these structures, the organization will post key employees unpredictably around the system to prevent them going native and their next posting will be kept unpredictable. The UK civil service also has a tradition of limited-term posting which is similar to the convention adopted by the Chinese imperial bureaucracy of no more than three-year tenure in one position, with no certainty about where the next position would be.

The mixture of controls via oversights and the inspector-free mechanisms for regulation inside government comprises a variety of forms (Hood et al, 1999). Variation of the mixtures will create different environments and pressures in government bureaucracy. Increased emphasis on oversight has seen heavier stress on competition in the UK public service over the past two decades. Oversight mixes with other inspector-free modes of control to produce a range of hybrids. It is unusual to see control by pure oversights than the hybrid forms. An example of oversight linked with competition is the way that overseers of government (like the AC in its assessment of comparative local-authority performance on a range of services) often encourage their charges to compete for high ratings in a 'saints and sinners' table. The system of rating UK universities for teaching and research quality by panels of assessors drawn from the world of university teaching and research, and linked with funding and quality control by government overseers is an example of oversight linked with mutuality. While an example of oversight linked with randomness is the way the Prison Inspectorate combines a programme of visits arranged in advance with a series of unannounced spot checks on prisons; which are said to be more effective than the visits announced in advance.

Hood et al (1998) identified four main weaknesses in the current institutionalization and behaviour of public sector regulators. The first weakness is lack of coordination for regulators in government for identification of good practice, examination of 'hot spots' and discussion of general approaches or overall philosophy across the various domains of regulation. The second is the government regulators' lack of systematic exposure to productive rivalry, rather than *ad hoc* turf battles or collaborative deals where responsibilities

overlap. The third is a lack of clear central responsibility and finally a lack of snap inspections or random scrutinies, especially at the top and the centre of government. Thus, next section will review accountability.

2.5 Accountability

REVIEW I

2.5.1 Audit and Accountability

Accountability is defined as an obligation for a person or organization to justify actions to another body in terms of some authorization for the activity given by that body; and it involves several elements (James, 2003):

    i.   the assignment of duties or purposes;

    ii.   an obligation to answer for them;

    iii.   surveillance of performance; and

    iv.   some reward or sanctioning for performance or non-performance.

Funnell (2001, 2003) suggests that public accountability means government being answerable to the people for governing in the best interests of all citizens according to legally prescribed processes and accepted conventions and there are two aspects to constitutional accountability:

    (i)   governing as prescribed by the body of the law; and

    (ii)   governing in the best interests of all citizens according to accepted conventions.

Fountain (1991) wrote that accountability is the basis of government in the Westminster system because it is the right of the electorate to received information about the actions and expenditures of the executive and legislative arms of government. Patton (1992) opined that it is more important for the local public and stakeholders of the public sector entities to be able to make informed judgments about the performance of the entities against stated objectives and the stewardship of public monies because they have no freedom to choose between alternative entities in the public sector (unlike the private sector where investors have access to capital markets). Thus, performance reporting is vital in the public sector. Light (1993) suggests that accountability in government can be divided into two different forms:

    i.   *'compliance accountability'* – managers are subject to detailed rules, with some
        sort of sanction for non-compliance;

    ii.   *'performance accountability'* – managers are subject to incentives to reach goals.
        (p.14)

Based on the definition above, Kluvers (2003) wrote that accountability relationship in the public sector exist between: (i) elected officials and managers; (ii) elected officials and citizens, and (iii) citizens and managers. Although there are similarities with the accountability relationships between directors of a company and shareholders and management, the public sector is not judged by the profits it makes but on the policies that are developed and the extent to which stated objectives have been achieved. Foster (2000) suggests that by using a contracts which reduce accountability to become obligations (where there is principal-agent relationship), accountability can be best achieved. He claimed that as long as a contract is clear, the obligations under the relationship will also be clarified.

Kluvers (2003) noted that accountability is not straightforward but is multifaceted and complex. If accountability is not adequate, resources may not be used efficiently, effectively and economically (Kluvers, 2003). Accountability is also necessary to ensure that decisions may not be favouring particular individuals or groups that may result in the amassing of wealth by a country's elite at the expense of development for the population as a whole.

Figure 8 illustrates the environment of accountability mechanisms in local government. The figure does not show other actors such as ministers, officers, and other civil servants who operate inside organisations (Central Government, Local Authorities, Audit Commission) shown in the figure.
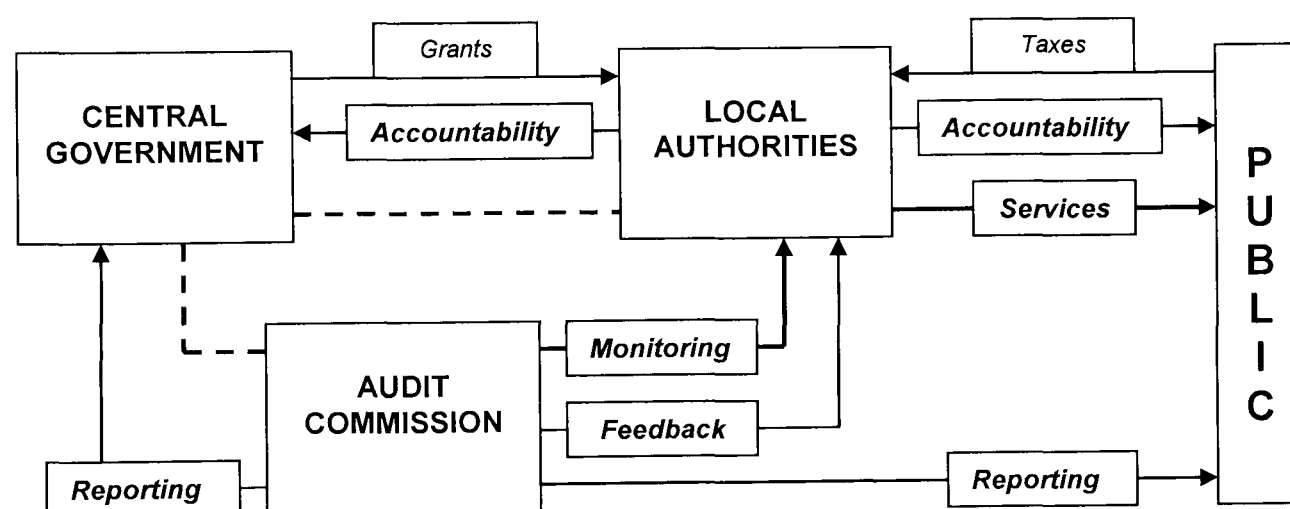
Figure 8: Mechanisms of Accountability for English Local Authorities
Source: Author's diagram based on various reading

The figure above is derived from a review of government documents and literature related to local authority audit in England to describe the accountability mechanisms currently in operation for local authorities in England. There are three important actors in the mechanism; *the central government, the AC* and *the local authorities.* Local electors elect councillors for their local authority and the local authority has statutory obligations under legislation to provide services to the community on their behalf. A local authority's income to support their activities is mainly derived from central government grants and allocations and

taxes collected from local electors. Therefore, local authorities are accountable to both central government and their local electors. Ensuring the accountability of their agents (local authorities) is vital, and central government prefers a concept of accountability that describes the responsibility and obligations of local authorities to be measured against 'apparently impartial criteria' (Kelly, 2003: p. 462).

The AC was formed and assigned with responsibility to report to central government on the accountability and performance of local authorities. Under Section 99, Local Government Act 2003, the AC has a duty from time to time to report on its findings and categorise English local authorities according to their performance in exercising their functions. In this case, direct monitoring by the principal (central government) over their agents (local authorities) has been replaced with AC's monitoring. Local electors can expect to find out on the accountability of their councillors based on the same report produces by the AC, a body appointed to report on local authorities' accountability to central government. Given that the AC's establishment is to help central government monitor local authorities and report on their accountability, the AC is to devise and implement mechanism for local government to meet the needs of being accountable to central government. In other words, local authorities will be assessed for their accountability from the perception of the AC that is derived from the mandates of central government. At the same time local authorities also have to be accountable towards the public, the council having been elected by the public to serve them.

It is well known that accountability is important for the effective operation of both public and private organisations. When public and private organisations grow large and complex, shareholders or citizens cannot direct the management of these institutions. Therefore, they employ managers to operate public or private organisations on their behalf and the managers are usually asked to be accountable for their stewardship. As for the public sector, accountability is necessary because the sector exists for specific goals/mission to serve the community and resources are allocated to them for that reason. The community then has rights to assurance that their monies are allocated to programs that have a clear and relevant purpose, are efficiently and effectively executed, provide value for money and that the parties entrusted with the resources have maintained the highest standards of ethics. James (2003) supports the view that regulation is related to the accountability concept and that both involve the exercise of authority.

The accountability (principal-agent) relationships are made difficult by information asymmetry and power differentials (Broadbent and Guthrie, 1992). Sinclair (1995) suggests that the conflicting accountability-relationship of the public sector made the accountability issues more complicated. Bowerman (1998) identifies two major sources of tension in accountability: (i) the different interpretations of accountability, and (ii) the accountability between different stakeholders. Different groups define accountability in different ways:

auditors discuss accountability as financial or numerical issues, political scientists view accountability as a political imperative, legal scholars view accountability as constitutional arrangements, while philosophers treat accountability as a subset of ethics (Bowerman, 1998). Hence understanding the perceptions of accountability held by elected officials and management in the public sector is important because accountability is the key to maintaining trust and its existence at various levels (Kluvers, 2003).

Patton (1992) suggests that different types of information and disclosure are necessary for different modes of accountability, for example information to determine managerial accountability would differ from information to determine accountability for probity or reporting of performance. Reliance on the financial and audit reports which initially are meant for financial accountability has reduced accountability to a 'contractual relationship' which is inadequate (Kluvers, 2003). As noted by Hopwood (1984), the efforts to secure better internal management accountability using accounting technologies may not necessarily lead to greater public accountability, but instead give 'selective visibility' to some organisational outcomes.

This is supported by Lovell (1996), if accountability is considered to be the same as an audit, then an independent audit is seen as a guarantee of accountability and he lists a number of problems with this limited definition of accountability:

> While ex-post audit is a public statement that financial rectitude has been achieved, it also reinforces the belief that public assessment via external audit need only (or possibly can only) take place after the event. Such an approach can be lamented on three grounds: (i) that too much power is allowed to reside in too few hands; (ii) it allows the policy too easy an excuse to absolve themselves of some of the important responsibilities of citizenship; and (iii) audit cannot deliver the degree of protection or validation which seems to be attributed to the practice. (p.267)

Lovell further said that there is a risk when only organisational activities which can be financially quantified become part of the accounting system and therefore get audited. He argues that accountability is increasingly seen as the auditing of simplistic measures and therefore audit criteria are affecting accountability criteria in the public sector. This approach has limitations especially in the public sector because the sector deals with delivery of public services. Rentscheler and Potter (1996) also wrote that accountability should not be confined to financial effects only because this risks overlooking effectiveness and quality of service which are difficult to quantify.

Green (1997) wrote that auditing in the public sector requires a unique and aggressive approach, with the basic goal being to protect the public interest. This is because bureaucrats and politicians have a vested interest not to reveal potentially damaging information, hence public sector audit 'must be and be seen to be' fearless and without favour. Pallot (1999) agreed that audit plays a vital role in any accountability arrangement in

which a principal cannot personally investigate what is happening with resources entrusted to an agent.

Barberis (1998) discusses the tricky nature of accountability in the public sector. Quoting the court case of Carltona V. Ministry of Works decision which reconciled with the traditional doctrine of accountability that *'the minister is subject to a direct and active accountability to Parliament, not only for the actions of civil servants but also for his own decision as to whom to delegate'* he argue what if the:

i) civil servants are now less anonymous – if the official machine has, by design or otherwise, assumed something of a constitutional 'personality'?
ii) ministers can and have blamed civil servants; and if, in occasion, civil servants have returned fire?
iii) lines of accountability are unclear? (p.452)

Barberries further wrote that the court ruling implies some impediment in the system and reason to think that the reality of accountability rests at further variance with the formal doctrine. Quoting various literatures he said that:

'There is now quite widespread acknowledgement that the traditional notion of ministerial responsibility is itself no longer satisfactory and can no longer serve as the sole constitutional touchstone of accountability.' (p. 452)

Foster (2000) is also critical of the traditional Westminster notion of accountability, insisting that it is diminishing in effectiveness because it is based on historic and forensic notions of accountability. The changes in public sector management under NPM induce substantial change to the accountability concept and to the accountability of public sector participants. Parker and Gould (1999) wrote that NPM has changed the fundamental orientation of public sector accountability from accountability to the public to accountability for financial outcomes. Managerial accountability under NPM has expanded its scope beyond traditional administrative accountability (monitoring processes) to include the monitoring of inputs, outputs and outcomes. Under NPM the emphasis is more on 'performance accountability', a change from tactical to strategic guidance, direct to indirect command, detailed instructions to freedom within constraints (Light, 1993). The basis of NPM is the reduction or removal of differences between the private and public sectors and placing more emphasis on results (Hood, 1995).

However, some aspects of regulation in government seem to take on more compliance accountability, moving in the opposite direction from operational management where an extra freedom given to public managers is countered by more regulations (Hood et al 1999). These moves cause the traditional view of accountability to become no longer adequate and changes are necessary to the accountability concept (Kluvers, 2003). Accountability under NPM expands beyond producing an account of the resources used to embrace the efficiency of usage and effectiveness of policy decisions (Kluvers, 2003). Managers are required to be more entrepreneurial, concerned with performance and involved in policy decisions under NPM which make the traditional accountability relationship of fiduciary responsibility,

stewardship and probity between elected councillors and managers less relevant. Under NPM, accountability is hoped to be achieved by the invisible hand of the marketplace, where, if end users are dissatisfied with policy or service provision, they will go elsewhere, leaving providers at loss. This is difficult to achieve and is not an appropriate mechanism for the public sector because the relationship between government and its citizens is more complex than a consumer-provider relationship (Ryan, 2001; Patton, 1992).

Kelly (2003) claims that accountability itself is a contested term, and that the criteria used to evaluate local authorities' accountability towards their various stakeholders are ultimately derived from preferences about political choices and from normative judgments. She argued that the government's actions to increase accountability through public audit as denying the contestability of the criteria used to benchmark standards and performance. Through compliance with the AC required procedures, local authorities will be certified as being accountable. The same reports are made public by the AC to inform local electors about the performance and accountability of their local authorities, and in comparison to other local authorities throughout England. That very same report is also used to provide feedback for local authorities. Thus, these would encourage local authorities to focus on complying with the indicators.

The AC does not just hold a mandate to report on local authorities' performance, but at the same time is responsible for ensuring that local authorities deliver the services expected from them economically and effectively. The AC has generated a set of specific performance indicators for auditors to assess local authorities; by not meeting the specific indicators, local authorities would risk their scoring. Thus, an element of force is evident. In other words, besides reporting on local authorities' performance, the AC are trying to change local authorities' behaviour to fit with their required performance indicators (Hood et al, 1999, James, 2003). The AC monitors local authorities' activities, assesses their activities and reports to the Central Government. The same assessment report will be used to provide feedback to local authorities on their achievement. The AC's appointed auditors will advise local authorities (based on their assessment and scoring) as to how the local authority can improve their scoring in the future.

An audit might promise to compensate for lack of regulatory oversight by government through council elections and to provide accountability for organizational behaviour. However, the capacity of audit to do so depends on several factors (Courville et al, 2003) which will impact on the auditees in the auditing process and increase the subjectivity in audit judgments. Power (1997) argued that there is an 'expectation gap' between the explosion of demands and the expectations of auditing at a policy or system level and the reality of an audit's technical and operational capacity. Kelly (2003) argued that activities performed by the AC present several significant challenges to local authorities, central government and the AC itself:

First, whether the activities of AC in measuring and ranking council performance will make a significant difference to those local authorities that are middle ranking. Second, whether central government monitoring of the performance of local authorities according to their capacity to deliver national welfare policies will weaken further political accountability of locally elected representatives. Third, whether it is feasible for the AC to retain its legitimacy as an independent adjudicator if it continues to design and operationalize the criteria by which councils are judged. (Kelly, 2003, p.474)

Courville et al (2003, p. 180) also question the capacity of audit to provide accountability for organizational behaviour. The authors suggest that audit capacity is dependent on various factors such as, (i) the auditors; (ii) the auditors' expertise; (iii) the way these auditors are regulated or accredited; (iv) the auditors' relationship to the auditee, (v) the auditors' data collection methods for evidence, whether the auditors sample the data to be checked, the extent which the auditors use fieldwork, rely on expert opinions, rely on checks of internal controls and systems; (vi) the extent of auditors' consultation in collecting data for evidence and their reliance on the consultations; (vii) the genuine participation of any stakeholders; (viii) the way the auditors form an opinion on the data or evidence; (ix) the setter for the parameter of the opinion that the auditor is to form; (x) the extent of the audit findings being negotiated with auditee before being publication; (xi) the auditees response to the audit; (xii) the possibility to measure the impact of the audit process; (xiii) the intended and/or unintended ways in which the prospect of the reality of audit change the auditees' behaviour; (xiv) if there is evidence of creative compliance to maintain autonomy while appearing to comply; and (xv) if there is evidence of dysfunctional side-effects or conflicts between the consequences of audit and effectiveness or performance.

Many issues have to be considered in measuring or evaluating the implementation and success of public sector audit. English (2003) questions whether the public accountability obligations of auditor-generals can be maintained under a regime in which an auditor-general conducts no audit. She concluded that:

the tension between economic incentives and community imperatives suggest that private sector auditors would be unlikely to deliver audit of the scope, depth, quality and impartiality required to discharge public accountability. (p. 70)

In the previous discussion on public sector governance (2.4), regulation which is used as a mean to ensure accountability is understood as going on at huge scale. Regulation is done through inspection, therefore inspection is also increasing. As some forms of these regulation and inspection are performed by auditors, increases in regulation have created an audit explosion. Thus, the following sections review the increase in inspection and then the audit explosion.

2.5.2 Increasing Inspection

Public service audit and inspection are not entirely new phenomena (Downe and Martin, 2007). Their origin can be traced back at least as far as the early 18th century (Rhodes, 1981) but the preoccupations of nineteenth-century inspection were very different to those of today. In the 1980s and early 1990s, the Conservative Government started the use of performance indicators and VFM auditing in UK central and local government (Hood et al, 1999). The current government has greatly extended the scale, scope and intensity of external regulation (Downe and Martin, 2007). The rise of inspection is driven by several factors (Clarke et al, 2000):

(i)   the crisis of public spending in the 1980s, which increased pressure to ensure that public services provided value for money;

(ii) the continued erosion of trust in the capacity of professionals to safeguard the interests of service users and taxpayers;

(iii) the need for new mechanisms to monitor and control the increasingly fragmented pattern of public service providers that emerged in the 1980s and 1990s as a result of the privatisation and marketisation of public services.

Inspection has become important to reconcile the issues above as it offers a mode of control that enables government to exercise supervision and direction of services that were increasingly being provided in new devolved, decentralised and dispersed organisational forms (Clarke et al., 2000). Inspection also fits neatly with New Labour's commitment to evidence-based policy making because it provides a diagnostic tool with which ministers can weed out or intervene in failing services and safeguard the public. These contributed to extended audit functions to serve some of the inspection needs and the 'audit society' phenomena as claimed by Power (1994). The author describe audit society as referring to Britain's occupation with using the word 'audit' to refer to various kinds of inspection beyond the accounting-auditing profession, i.e. clinical audit, school-audit.

Power (1994) argues that the existing audit and inspection ability to promote improvement seems to be failing. This is because additional inspection and external inspection always accompanied flexibility and empowerment of the service providers. Various other researchers have also considered the benefits of inspection. Davis et al (2001) wrote that inspection in theory may produce a range of benefits such as:

(i)   a catalyst for improvement;

(ii) to enhance accountability;

(iii) to identify failures and seek remedy;

(iv) to prevent failure and take a lesson;

(v)   to protect vulnerable service users and taxpayers;

(vi) to encourage self-evaluation; and

(vii) network of learning within and between organisations.

However, aiming for the benefits just mentioned is not cheap and straightforward. The costs involved in having inspection are high, involving not just the direct costs of running the inspectorates, but also indirect costs which incurred at the inspected bodies such as:

(i) compliance cost – staffing costs to demonstrate compliance with a regime;

(ii) avoidance costs – investment in staffing and legal advice to seek to circumvent legislation as an alternative strategy;

(iii) opportunity costs – diverting staff time to prepare and manage inspection processes resulted in sacrificing of other activities;

(iv) displacement effects – focusing on monitored and measured activities/outcomes and less attention on other important issues not included in the indicators;

(v) hindrance to innovation – organisations adopt a risk avoidance behaviour for fear of failures and risks when trying to develop innovative approaches;

(vi) damaging to staff morale – morale depression among staff because of being checked upon and the workload involved in preparing reports for inspection. (Davis et al, 2001, pp. 14-15)

The costs involved are difficult to quantify accurately (Geddes and Martin, 2000) and the full impact of inspection may not surface immediately (Power, 1994). Although the AC has reported opportunities for cost savings with the inspection regime through increased value for money, attempts to quantify the impact of inspection have not reached unanimous conclusion. Scanlon (1999) studies on school inspection found positive impacts but she noted the inverse relationship between staff morale and improvement in education standards. Supporting the finding, Kogan and Maden (1999) found evidence of major management changes combined with lower levels of staff satisfaction.

Given the benefits and costs of inspection, many practitioners argue that there is a need to develop regimes that give less attention to process and greater emphasis to outcomes and a widespread support for a more 'risk-based' approach to inspection. Some have suggested an inspector-free regulation regime where the service provider would be encouraged to undertake self-evaluation (Dunford, 1998; Kogan and Maden, 1999). Ferguson et al (2000) argued that the disadvantages of a set-piece inspection could be made more effective through self-evaluation and self-inspection system. Hood et al (1999) in their four types of inspection introduced competition and mutuality as regimes which did not require external inspection. Both competition and mutuality played roles in the current assessment regime (McGarvey and Stoker, 1999).

Davis et al (2001) suggest that it is important for an inspection regime to achieve a balance between:

(i) local diversity and central prescription: allowing authorities to adopt approaches that meet local priorities whilst also ensuring that service users in different parts of the country do not experience wide disparities in standards;

(ii) experimentation and 'zero-tolerance of failure': dealing with serious and persistent underperformance without discouraging appropriate risk taking;

(iii) local capacity building and central prescription: encouraging self-sustaining improvement whilst also making sure that, in those instances where it is clear 'what works', all authorities are encouraged to adopt 'good practice';

(iv) achieving 'early wins' and sustainable improvement: providing incentives for authorities to deal as rapidly as possible with underperforming services whilst also creating the conditions (including necessary resources and stability) to enable them to reconfigure services in ways that lead to sustainable, long-term improvements;

(v) cost savings and improvements in the quality of services: keeping up the pressure to ensure that services are delivered as cost effectively as possible whilst also making available the funds needed to invest in long-term improvements in infrastructure and training. (pp.19-20)

To conclude, there are benefits and weaknesses of the current inspection regime which require further investigation and modification so the objectives of having inspection to improve services and accountability can be achieved without a damaging effect to inspected organisation, especially in terms of staff morale and costs.

2.5.3 Audit Explosion

Increased regulation for accountability contributes to increased inspection to provide assurance that the framework is reliable. Reliance on audit to provide assurance and checks on the regulatory framework for accountability has contributed to an expanding role for audits. Power (1994, p. 5) wrote that 'audit has become central to the ways of talking about administrative control' where audit is extended into different settings to work as a technical response to problems of governance and accountability. The author also asserts that audit emerged at the boundary between the older traditional control structures of industrial society and the demands of a society which is increasingly conscious of its production risks, and further claimed:

> 'Audit is a way of reconciling contradictory forces: on one hand, the need to extend a traditional hierarchical command conception of control in order to maintain existing structures of authority, on the other hand, the need to cope with the failure of this style of control, as it generates risks that are increasingly hard to specify and control.' (p. 5)

The author in his various articles on the issue termed this phenomenon as 'audit explosion'; and claimed that Britain has become an 'audit society'. Prior to NPM, external and internal audit had low status and impact in administrative and management hierarchies (Power, 2003). The traditional constitutional analysis by lawyers had neglected the critical role of public sector auditing in mediating managerial and democratic accountability (White and Hollingsworth, 1999). Power (2003) wrote that the traditional audit has maintained several characteristics:

- the professional and intellectual invisibility of auditing, relative to other components of management and public administration, enabled it to maintain an institutional image as a neutral, technically necessary but minor practice corresponding in function to the equally humble practice of bookkeeping and related low-level financial control practices;
- at the operational level, the scope of traditional audit tended to be highly constrained, being concerned primarily with the legal and managerial authority of transactions;
- the point of view of this traditionalist account, auditing and auditors are not to be regarded as natural organizational change agents and are not relevant to wider discussion of organizational performance. By definition, traditional auditing cannot and

does not disturb the climate of "mutuality" and bureaucratic oversight and the auditor of the 1960s and 1970s is not yet enlisted in the reform process. (p.187)

The NPM mantras of three Es and value for money have forced the legacy of concept and practices in auditing to adapt and change (Power, 2003). Power in his various articles argues the usage of the word 'audit' to refer to many extended activities without offering any preferred definition. This is to reflect the slippage in the approach to define audit by preference and causing the word 'audit' to be 'smuggled in' as an analytical concept to label the practices of inspection and evaluation (Power, 2003, p. 187). The new 'audit' was performed not on the primary activities, but rather on the systems of control. Power described this notion of auditing on the systems of control as 'policing the policing' and called that the 'audit explosion' because the policing activities have gone beyond financial statements. This gives rise to an expectation gap because audits are not directly concerned with the quality of performance but rather with the system in place to govern quality. Thus the policing (auditing) will be never-ending activities if the policing (organisational control system) is not sound.

The impact of an audit of this kind had, is that, it actively constructs the contexts in which it operates, shaping the standards of the auditee's performance in crucial ways as well as public conceptions of the problem for which audit is the solution. Thus, the AC's style of audit has the power to shape auditees' behaviour and performance in certain ways through their prescription in the key lines of enquiries (KLoE) indicators. This situation will limit auditees' motivation to find better ways of improving and to stick with what the AC's requires them to do because that will be reflected in their scored performance. At the local government level, the formation of the AC marked the explosion of inspection activities from its basic original task of organising the certification of annual accounts. The inspection activities are also called 'regulation' (because the AC acts as regulator to regulate local authorities) and 'audit' (because the activities are being performed by auditors).

Power (1994) doubts that audit deliver what they promise in the form of greater accountability, efficiency and quality or whether they fuel the problems which they address by, for example encouraging distrust. Power (1994, pp. 4-8) forwards eight discrete arguments in his exploration of the newly emerged auditing function:

i. the word audit has been used in a variety of contexts and meanings depending on fields where it is referred to;

ii. there has been an explosion of audit in many different fields, audit has been assumed to be an all-purpose solution to problems of administrative control;

iii. audit has been used as a way of reconciling contradictory forces, audit has emerged at the boundary between the older traditional control structures of industrial society and the demands of a society which is increasingly conscious of its production of risks, in fields ranging from the environment, to medicine and

finance. (the spread of audit corresponds to a fundamental shift in pattern of governance in advanced industrial societies);

iv. the pervasive feature of audits is that they work not on primary activities but on other systems of control, audit is often not directly concerned with the quality of performance but rather with the systems in place to govern quality;

v. audits are not simply answers to the problems of accountability although it is linked to the ideals of organisational transparency and accountability, the audit explosion could signify the displacement of trust from one part of the economic system to another; from operative to auditors;

vi. audits are usually publicly visible when they fail, same character of all kinds of policing which have problematic criteria of success, but failure generally leads to a call for more policing;

vii. audits are not passive practices but strongly influence the environment in which they operate, 'auditing is a peculiar form of alchemy which, in making auditees auditable, produces regulatory comfort';

viii. there are other ways of achieving accountability but the audit explosion has made it difficult to think of alternatives to itself.

So, what causes audit to explode from its main function and where is it evident? The rise of the NPM, increasing demands for accountability and transparency, and the rise of quality assurance models of organizational control were identified as three reasons for the audit explosion (Power, 2000). The explosion effect can be seen in both institutional and behavioral contexts (Power, 2003):

(i) *Institutional*: transformation of existing, and the emergence of new, formal institutions for monitoring:

> ... the audit explosion represents the rise of "control of control" (Power 1999:66) in which the first-order of quality are subordinate to a logic of management system integrity, and in which audit serves a virtualist form of "meta-regulation" (Parker 2002: chap. 9) (p.189)

(ii) *Behavioural*: the growth of auditing has had profound impacts on behaviour beyond those intended by NPM reform processes, the rise of 'auditee' and 'audit mentalities', a system that seeks to represent performance in such a way as to make it readily auditable, leads to decline of organizational trust.

In local government, institutional context prevalent in the formation of the AC to takeover several inspectorates' function and coordinate the remaining inspectorates. In terms of behavioural context, the AC presents a list of detailed indicators to measure performance in which forces auditees to comply. Thus monitoring and assessing with specific indicators would have impact on the behaviour of the auditees. Furthermore, the attempt to make everything auditable and quantifiable is complex and might work in contrast to what is intended by NPM.

Some academics have noted that the idea of NPM in government bureaucracies was derived from those of private sectors and that VFM auditing is not yet tested on the private sector (Gruening, 2001; Ferlie et al, 1996; Boston et al, 1996; Dunleavy et al, 2007). The VFM audit, however, has been applied for government bodies which include local authorities. Applying the techniques that have never been testified by the private sector has contributed to arguments on the reliability and effectiveness of the techniques. In local government VFM is assessed using criteria developed by the AC and judged by the auditors. Private sectors or other government agencies such as universities and health sectors would likely have professionals other than auditors assessing their VFM unlike local government. Thus the limit of professional judgement would prevail when auditors alone certify VFM. This give rise to the question of the capacity of auditors in measuring those activities – whether they (the auditors) really understand the nature of the specific activities being measured and ranked?

Power (1994) argues that audit actively constructs the contexts in which it operates. Audit not only shapes the activities under its control but also represent a very specific concept of accountability. Hence, the behavioural impact of audit occurs when it not only passively monitors auditee performance but shapes the standards of that performance in critical ways. The author also argues that audit now has an institutional foothold in the public imagination which has made it difficult for alternative accountability and control procedures to gain audience. He uses a diagram, presented in Figure 9, to illustrate different models of accountability and control.

STYLE A	STYLE B
Quantitative	Qualitative
Single Measure	Multiple Measures
External Agencies	Internal Agencies
Long Distance Methods	Local Methods
Low Trusts	High Trusts
Discipline	Autonomy
Ex Post Control	Real Time Control
Private Experts	Public Dialogue
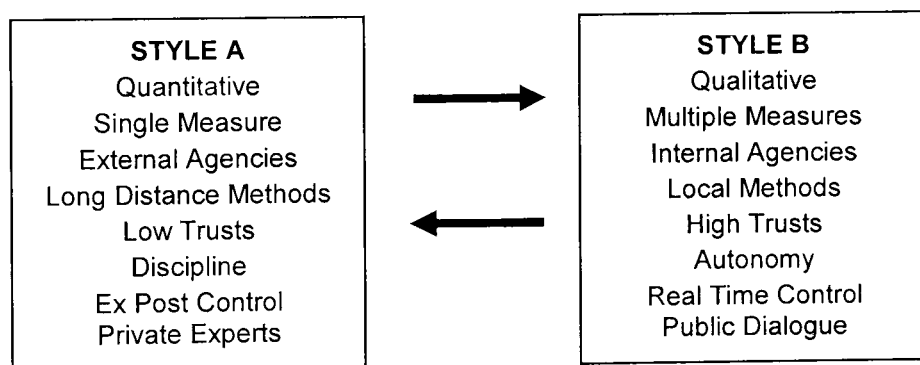
Figure 9: Different Models of Controls and Accountability (Power, 1994, p. 7)

The audit explosion prioritised style A above as a solution to any problem (VFM could be regarded as incorporating both) (Power, 1994). Using the quantified, simplified, ex-post forms of control by outsiders have progressively displaced other types of control (the alternative style B). Power argues that the shift to style A has brought 'complex bundles of gains and losses' (Power, 1994, p. 8) and that the new accountability mechanisms introduced by the AC has displaced trust (will be discussed in Section 2.7). He suggests that the gains will be most visible if used with the alternative style B: qualitative and multiple measures, internal agencies, local methods, high trusts, autonomy, real-time control, and public dialogue (Power, 1994).

Arnaboldi and Lapsley (2008) supporting Power's (1997) arguments, suggest that the pervasive presence of audit on society can lead to: (i) legitimation and decoupling strategies; (ii) colonization and cultural change, and (iii) displacement of core organizational activities. The authors (2008, p. 27) explain legitimation as audits having the potential in producing 'comfort or organizational legitimacy' because audits always work as a rationalized ritual. In terms of colonization and cultural change the authors suggest that audit may be mobilized to counter and challenge the organizational discretion and power of professional groups which have held significant autonomy. Arnaboldi and Lapsley (2008, p. 27) also suggest that Power (1997) views VFM auditing as 'explicitly a vehicle for organizational change'. The process of compliance to auditor's demand is argued as not neutral and that the act of compliance may result in dissemination and implanting of the values underlying the audit approach and thereby achieve colonization (Arnaboldi and Lapsley, 2008; Power, 1997). Performance auditing may have dysfunctional impacts or 'reverse effects' where unintended consequences of audit activity may occur; and that audit processes may fail because side effects may undermine performance, including the displacement of organizational core activities to fulfil the audit agenda (Power, 1997 in Arnaboldi and Lapsley, 2008).

Arnaboldi and Lapsley (2008) study the impact of Best Value (BV) on the perception of management in local authorities and found limited legitimating behaviour, some colonization and a picture of resistance. They found evidence of behaviour which is seen as legitimating the actions of management, senior managers who said that they would address BV in a tick-a-box manner rather than acting upon its guidance. In terms of colonization which can be depicted as 'culture change', they found evidence of limited buy-in to the language and practices of BV and limited culture change, and admit that this may be due to time-factors. Their study confirms the elusive nature of cultural change.

Bowerman et al (2000) and Pallot (2003) are rather critical of Power's argument. Bowerman et al (2000) observed that the situation of public sector audit was more complex and multidimensional than what Power has implied, thus the authors criticized Power's inclusion of 'audit' beyond its traditional concepts. They argue that bracketing 'inspection' with 'audit' does not address fundamental differences in these activities. However, although audit and inspection may have different focus, they complement each other in terms of the reporting system and evaluation process (Public Audit Forum, 2002). Pallot (2003) disagrees with Power's interpretation that activities of the UK's supreme audit institution as being UK-centric, comparing a differing situation in New Zealand.

The following section will review audit quality and effectiveness.

2.5.3 Audit Quality and Effectiveness

DeAngelo (1981) defines audit quality as the probability an auditor will both discover and report a breach in the client's accounting system. There have not been many studies done on audit quality in the public sector, but similar to the private sector, audit quality deficiencies in the public sector threaten public confidence in the profession (Deis and Giroux, 1992). Audit quality is also influenced by specific industry knowledge and uniformly stated standards (Krishnan and Schauer, 2000). Specialization, which is a proxy for audit expertise, is developed through training and practical experience gained from auditing in a specific industry (Gramling and Stone, 2001). Thus, the expertise gained through auditing experience increases the likelihood that auditors will detect errors in financial statements (Hammersley, 2006; Ashton, 1991; Libby and Frederick, 1990). Several researchers have indicated that auditors with training in specialized areas outperform those without training or experience (Kwon, 1996; Libby, 1995). Lowensohn et. al. (2007) found positive association between the degrees to which audit firms specialize in government auditing and audit quality as perceived by the finance officers of Florida local governments.

The effectiveness of many public services is difficult to determine because objectives are often imprecise and ambiguous, and even if they are not, their achievement is frequently impossible to measure (Pendlebury and Shreim, 1990). Therefore, the evaluation of effectiveness is an inherently subjective process and the appropriateness of involving auditors has always been a matter for concern. A House of Commons report in 1946, more than 60 years ago, contained the following comment:

> When you are getting down to the question of whether you are getting value for money, it is not a question of expert advice … it is a question of a common sense attitude to a public problem which can only be achieved by the combined abilities of a group of men with different aspects, coming from different walks of life, with different ideas; and that examination is not going to be materially helped by a body of experts auditors or accountants. (Pendlebury and Shreim, 1990, p. 177)

The appropriateness of auditors to do the inspection at local authorities has been debated by many researchers since the early 1980s. The debate has focused on issues related to whether the 'audit' of effectiveness was achievable, whether the existing external auditors were the appropriate individuals to carry out the 'audit', whether the 'audit' should be undertaken by a team made up of auditors plus experts drawn from and trained in other disciplines, and whether the audit of effectiveness involves the auditor too closely with matters of policy (Pedlebury and Shreim, 1990). The Price Waterhouse handbook (1983, p. 59-60) on value for money auditing also contain doubts over the ability to perform such audit. The handbook mentions that to develop a guide towards evaluating effectiveness is more difficult but certain rules can be identified. The form of approach required can be identified through a few basic questions: (1) Is there a clear identification and ranking of goals?; (2) Can progress towards goals be objectively assessed? (3) Is the 'target' service level (i.e. how activities contribute to goals) clearly known?

Effectiveness can be reviewed in a reasonable scientific way if the answer to all the three questions above is 'yes'. If the answer to question (3) is 'no', evaluation can only be done on a highly subjective basis. If the answer to question (1) is 'no' and goals cannot be objectively determined or agreed then the interpretation of effectiveness of policies can only be a political process. In both cases, but particularly the latter, effectiveness audit would therefore found to be extremely difficult to carry out at all (Price Waterhouse Handbook, 1983, p. 59-60).

Some researchers regarded inspection and audit as distinct activities: the AC's principles of inspection are concerned primarily with the nature of service outcomes and conformity to professional standards while audit is focused upon issues of financial regularity, value for money and the appropriateness of the audited body's management arrangements (Day and Klein, 1990; Rhodes, 1981). Humphrey et al (1999) wrote that the boundary has become blurred as inspection has been progressively 'colonised' by audit practices and the associated performance and managerialist paradigms resulting in a hegemonic of 'audit-and-inspection regime'. Grimwood and Tomkins (1986), conducting two case studies on local authority audits carried out by an auditing firm, found that effectiveness auditing was not being achieved, and they concluded a strong prima facie that, if these audits were typical, little real effectiveness auditing is conducted by the auditors. Pendlebury and Shreim (1990), however, found that 'auditors feel that effectiveness auditing is achievable and that it is appropriate for them to be involved' although the auditors do acknowledge the need for support from specialists with skills other than auditing.

Davies et al (2001) suggest that inspectors need to demonstrate an understanding of the service(s) that they are inspecting and an appreciation of what is likely to work in individual authorities. They further wrote that this should include not only technical know-how but sensitivity to local political contexts. There have been some arguments over the inconsistencies between different inspectorates and these raise important questions about what inspectors see as their role and whether there is a common understanding among inspectorates (Davies et al, 2001). Thus, the establishment of auditors' (or inspectors') credentials is very important and necessary so that the quality of their audit is convincing to the auditees as well as to the public at large.

2.6 Performance Measurement

2.6.1 Performance Measurement and the Public Sector

A system of measuring performance may be compared with the Rubik's Cube (Halachmie and Bouckaert, 1996). The system which comprises of many components with distinctive shape must be matched properly to provide the correct picture. It is not a simple task to match the individual components because all are linked, although the linkages are not readily apparent. An understanding of the options and limitations of the underlying mechanism and the dynamics of performance measurement is necessary. Without the understanding, the performance measurement system – similar to the Rubik's Cube – can get out of shape, get stuck, break down, and frustrate everybody involved with it. Like the difficulty experienced by some individuals in solving the Rubik's Cube, some organizations will never be able to develop a proper performance measurement system. In some cases, frustrated managers will abandon efforts to measure performance and will thus deprive themselves and their organization of the opportunity to improve.

A measurement system consists of practices, procedures, criteria, and standards that govern data collection, the analysis of data and the compilation of results into quantitative or qualitative forms (Halachmie and Bouckaert, 1996). The system of measurement can be simple or complex, temporary or permanent. Depending on the desired performance information, agencies may have to use more than one kind of measurement. A properly designed performance measurement system may allow assessment of an agency's various attributes such as size or source of funding, employees' activities, relationship among different activities, and the resulting goods and services and how they are perceived by various stakeholders. A well-designed performance system may allow an agency to arrive at an index that represents the combination of several measurement efforts.

There are two postures apparent in government measurement systems (Halachmie 1982, 1992; Wholey, 1983): (i) results, outcome oriented management; or (ii) process-oriented management. The two postures might be conflicting (Wholey, 1983, p. 5), which explains why many performance evaluation efforts tend to focus either on the results or on the process for attaining the results (Halachmie and Bouckaert, 1996). Results-oriented systems will target the desired results and specifications of process are derived from the attributes of the desired results. This approach is consistent with total quality management core teaching which treat the outcome as essential. Process-oriented systems involve efforts to re-engineer the business processes of organizations (Hammer and Champy, 1993). Selection of emphasis on results or process for performance measurement should be based on the

objective of the assessment (Halachmie and Bouckaert, 1996). The reasons for assessing performance determine the necessary perspective of the evaluation, whether to look at process or impact (Halachmie, 1992). A different perspective of assessment may generate valid evaluation but will not be useful. In example, examining the changes in teachers' proficiency in specific subject areas may not help determine the proficiency of students in a particular grade (Halachmie and Bouckaert, 1996, p. 5). Students' achievement may be poor because of various other reasons such as learning or behavioural problems and little support from parents.

End users and uses of the performance measures may be primary and secondary, internal or external depending upon the specific data used for assessing performance, its level of aggregation, the organizational level at which the data are collected, and where the performance report is compiled (Halachmie and Bouckaert, 1996). The end users (primary and secondary) may be agency managers, elected or appointed officials, legislators, auditors, public interest watch groups, unions, private interest groups, individuals, the courts, and representatives of other governments, countries, or international organizations. Publication of performance data that are collected and measured for several primary users may cause the data to be misrepresented, intentionally or inadvertently (Halachmie and Bouckaert, 1996; Leo, 1990). In example, a journalist may reach unreasonable conclusions and then communicate those conclusions to policy makers and the public as facts (Halachmie and Bouckaert, 1996, pp.5-6).

It is necessary to identify who would use the data and why it is required to avoid problems with the use of wrong aggregation in reporting on achievements (Halachmie and Bouckaert, 1996). Those who generate data about the performance of organizations should not be too concerned about secondary users and secondary uses of the data. Confusion about the purpose of the measurement would lead to reporting data that are more favourable to the needs of the secondary users than the primary users. The most common example is the tendency to devise measures that facilitate dealing with external auditors (such as summary evaluations) instead of developing measures that are more suitable for improving performance or developing the program under consideration (such as formative evaluation) (Halachmie and Bouckaert, 1996, p. 6).

Performance measurement can be used for various purposes; oversight by the legislature or by various staff functions of the executive branch, budget decision tools, fine-tuning an agency by the senior managers through corrective measures, providing feedback to employees, information for future plans, and communication tools for clients. Due to many and possibly conflicting purposes a performance measurement system could serve, designing a system that meets the needs of all possible users is likely to be impossible (Halachmie and Bouckaert, 1996; Halachmie, 1993). Halachmie (1993) notes that the

temptation to use the performance appraisal data for other uses may backfire, reducing the appraisal's usefulness and increasing its costs.

Good performance measurements are geared to meet the specific needs of specific users (Halachmie and Bouckaert, 1996). Several elements must be agreed to by the designers prior to designing the performance measurement instruments (Halachmie and Bouckaert, 1996, p.7):

i. the organizational level at which performance is measured;

ii. the frequency of expected reports, the intervals between data collection efforts, and, if necessary to use sampling procedures;

iii. the data to be collected and the data that constitutes the core of the report;

iv. the intended users and intended uses; and

v. who is responsible for collecting the data, compiling the performance report, and disseminating the information to the intended users

These demonstrate that objectives, measurement items, targeted levels in an organization, who would be responsible, what kind of information is expected and who would need the information must be clear and agreed upon for an effective performance measurement system. Management or performance measurement techniques may also cause problems to productivity if applied or implemented incorrectly (Gabris, 1986).The author outline several traps in introducing or implementing a performance measurement system or making changes in it as time goes by:

i. Process Burden: the implementation and maintenance of procedural and control requirements for the measurement system that distracts employees from their actual responsibilities (Gabris, 1986, p. 6);

ii. Georgia Giant Syndrome: management techniques that work only under comprehensive supervision and control conditions. The expected and potential of the technique will not be achieved if control conditions are not met (Gabris, 1986, p. 8);

iii. Internal Incapacity: the result of superimposing a technique on an organisation that lacks the in-house capacity to implement and monitor the technique beyond it initial phases (Gabris, 1986, p.10); and

iv. Credibility Anxiety: many management techniques piled on top of one another, although they do not work well. New techniques are expected to produce dramatic and quick results; when results do not materialize after a short time, top-level appointed and elected officials deem the techniques' application a failure and responded to it by trying a different set of techniques (Gabris, 1986, p. 13).

The traps mention above would affect employees and organization in terms of productivity, motivation and morale. Thus, it is relevant to note that leadership also plays a big role in the

modernisation and improvement drive in local government; leadership is significant for organisation in adopting any reforms, and leaders have to support their subordinates in embracing the reforms. Kristensen and Laegreid (2008) found that civil servants are reluctant to adopt administrative reforms; only those who are in leadership positions and those who perform the functions which the reforms are embedded in their efficiency and management culture suggested that the reforms are significant. Fitzgerald and Moon's (1996) best practice guidelines state that performance should be driven from the top level management. Most leaders in any organizations, regardless of its size or structure, strive to maximize their subordinates' performance. Without a doubt, leadership is defined as mobilizing the workforce towards attaining organizational goals (Yukl, 1998) and leaders have always placed considerable attention on motivating their workforce. Thus, leadership style is also vital in achieving organizational goals as leaders can influence, motivate and evoke subordinates' performance (Barling et al, 1996; Berson et al, 2001; and Zacharatos et al, 2000).

Leaders are normally expected to provide supervisory feedback to subordinates: positive feedback for commendable performance and negative feedback for unacceptable performance. This reward and punishment system is viewed as a transactional leadership style (MacKenzie et al, 2001). Several researchers have promoted a transformational leadership style over other traditional forms of leadership (i.e. transactional) as best suited to achieve organizational goals (Awamleh, 1999; Conger, 1999; Dubinsky et al, 1995). Transactional and transformational leadership are common in providing clarity of desired outcomes, recognizing accomplishments, and rewarding high performance but differ in process and behaviour (MacKenzie et al, 2001). The transformational leadership style requires adaptation of values, goals, and aspirations to be consistent with subordinates, implements change through communicating vision, clarifying performance expectations, promoting acceptance of group goals, providing individualized support and intellectual stimulation. Consistent with Bass's (1997) description of transformational leadership as guidance through individualized consideration, intellectual stimulation, inspirational motivation, and idealized influence. Individualized consideration emphasizes personal attention, while intellectual stimulation encourages the use of reasoning, rationality, and evidence. Transformational leadership is claimed to have direct influence on organizational performance and indirectly through its effect on subordinates' emotions towards their leaders as well as subordinates' commitment (Barling et al, 1996; Howell and Avolio, 1993; Hater and Bass, 1988). Mentoring programmes are also found to be effective in fostering subordinates' performance (Sosik and Godshalk, 2000).

Emotions, ranging from positive (optimism and joy) to negative (frustration and anger), appear to play a significant role in relation to one's enthusiasm at work (Goleman, 1995). Leaders who understand subordinates' emotions appear to motivate them more effectively and efficiently (Grossman, 2000). Clarity of vision and establishment of objectives are

claimed to have the ability to promote enthusiasm and optimism (Dubinsky et al, 1995). Losing enthusiasm for work may cause employees to reduce their effort and negatively affect performance (Bandura, 1977). Thus, Ashkanasy and Tse (2000) claimed that transformational leaders use emotions to control their subordinates: eliciting optimisms through positive vision and new ideas. Optimism has a direct relationship with the amount of effort and performance, and has been used to distinguish high and low performers in organisations (Seligman et al, 1990; Schulman, 1999).

Frustration develops if employees have little or no control over a desired objective and it is unlikely that they will put in enough effort to achieve the objectives (Campbell and Martinko, 1998; Seligman, 1975). This normally happens when they attempted to achieve the objectives in the past but failed or are pessimistic towards the objectives, which they perceive extra work as wasted effort. Abramson et al (1978) claimed that feelings of helplessness and depression affect perception and performance. Hence, having good leaders is important in avoiding frustration among subordinates.
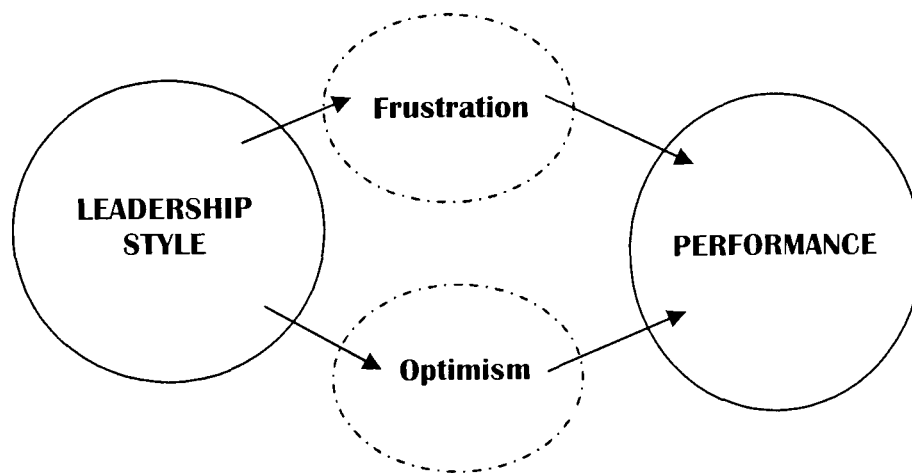
Figure 10: Frustration & Optimism Fully Mediating Leadership Style and Performance
(Source: McColl-Kennedy and Anderson, 2002, p. 553)

Figure 10 shows the relationship between leadership style and performance. McColl-Kennedy and Anderson (2002) argued that emotions – frustration and optimism – fully mediate the relationship between leadership style and performance. Their study confirmed the positive influence on performance when employees perceived they are being led by a transformational leadership style and on the other hand perceived low level of transformational leadership resulted in a high level of frustration which then negatively influenced performance. However, they also found that the negative influence of frustration over performance is more significant than the positive influence of optimism. They concluded with a suggestion that organisations should seek to adopt transformational leadership style and to be more attentive to signs of frustration among subordinates. As Seligman and Schulman (1986) found, pessimistic sales person were twice as likely as their optimistic colleagues to quit by the end of the first year.

Hence, in the context of this study, there is some evidence that the activities of inspection can influence satisfaction and morale among inspected/audited bodies. Scanlon's (1999) studies on inspection at schools noted that 'some aspects of school life seem to have deteriorated substantially since inspection', especially staff morale in which she concluded that improvement in education standards and staff morale have an inverse relationship. Kogan and Maden (1999) also reported decreasing staff satisfaction where some schools changed their management structure, teaching styles, had experienced more staff retirements, and more staff absence linked to stress. Davis et al (2001) said that constant checking and workload could have enough damaging impact on staff morale regardless of the results of the inspection; moreover being judged as a failing service which makes it even more difficult to attract high calibre new staff to turn-around the failing organisation. Thus, it is necessary to consider perceptions, morale and leadership when dealing with the ever-increasing inspection induced by NPM reforms.

Performance measurement in UK public sector serves four different managerial roles of giving strategic direction, resources allocation, exercising control, and encouraging learning (Bovaird and Gregory, 1996). Different managerial roles of performance measurement may be applied in different government organizations. Each of these managerial roles for performance measurement may arise not from internal choices of the organisation, but from imposition by external agencies (Bovaird and Gregory, 1996). The authors (p. 240) note that most of the performance management systems of the 1980s in the UK have the following common elements:

i. decentralisation of budget holding, often until the establishment of 'performance centres' or sometimes in the form of 'strategic business units';

ii. 'value for money' auditing, based on notions of economy, efficiency and effectiveness;

iii. systems of performance indicators, PIs, for monitoring and evaluation purposes;

iv. evaluations and reviews of past performance of projects, programs, and policies, sometimes as an integral part of planning and management;

v. sanction and reward systems based on formal assessment of performance, often tied to short-term management contracts and/or performance-related pay; and

vi. use of market as a benchmark for comparison of performance (or as an ultimate threat in the case of perceived persistent low performers).

The Fulton Report on the Civil Service in 1968 embedded the belief that management by objectives (MbO) and performance measurement must be components of accountability:

> Accountable management means holding individuals and units responsible for performance measured as objectively as possible. Its achievement depends upon identifying or establishing accountable units within government departments –units where output can be measured as objectively as possible and where individuals can be held personally responsible for their performance
> (Fulton 1968; p. 51, quoted in Bovaird and Gregory, 1996, p. 244)

Performance reporting has received extensive worldwide publicity as a means to achieve enhanced government accountability to the public (Cunningham and Harris, 2005). Performance reporting is also claimed as able to promote greater efficiency and effectiveness despite lacking in comprehensive theory to justify these claims (Cunningham and Harris, 2005). The implementation of performance measurement systems in the UK reveals government insensitivity to the different meanings of performance measurement, the different roles it can play and the varied ways in which reported performance is likely to be interpreted by different stakeholders in the policy-making process (Bovaird and Gregory, 1996). This has occurred despite it being central theme in the UK under the Financial Management Initiative (FMI) and its subsequent extension (Bovaird and Gregory, 1996).

Tomkins (1987) wrote that measuring outcomes links closely to the concept of effectiveness – the extent to which a public sector programme objective has been met. Thus, assessing effectiveness is impossible without satisfactorily measuring the outcome (Smith, 1996). However, measuring effectiveness is not easy and the AC (1991) stated that the public sector is more concentrated on inputs and outputs and the AC was not very successful in shifting that emphasis.

Sanderson (2001) found that performance measurement systems have important limitations as drivers of change and improvement, especially when they are externally imposed. The author wrote that external pressures played a key role in promoting greater focus on performance in local government but rather than emphasizing on applying it as tools for change, it has been used as a tool to enhance accountability which is also evident in this study. Schick (1999) suggests several features for performance targets to achieve the objectives of change driver, among others:

(i)   the performance targets should be few in number so they can send strong signals of expectation and provide clear basis for assessing progress;

(ii) the performance target should also challenge a local authority to make changes and should be jointly selected by each local authority and the authority responsible for overall government performance (the central government);

(iii) the performance targets are monitored, audited, and it is ascertained whether targets have been met;

(iv) the performance measurement is part of a larger managerial framework that encourages local authorities to improve performance.

Sanderson (2001) highlights several key requirements for a performance measurement system to achieve its intended objective:

(i)   the organisation assessed needs to develop the capacity to achieve change and improvement based upon evidence of performance produced by the assessment system;

(ii) the nature of change must be consistent with the key goals and objectives expressing the desired outcomes. There will be distortion in focus and action if the key measures and targets in performance measurement systems do not capture the essence of primary values and objectives (Sanderson, 2001, 1998; Smith, 1995);

(iii) The perspectives of all major stakeholders should be captured in the performance indicators and domination of managerial interests, and top-down approaches should be avoided (Sanderson, 2001). The author wrote that these will help to ensure appropriate definitions of objectives and performance targets as well as spreading ownership and develop capacities for evaluative enquiry amongst key stakeholders.

(iv) it is necessary for the organisation assessed to realise that they need to change their organisational culture to enable the capacity for evaluative enquiry to be embedded in their routines and ways of thinking and working (Sanderson, 2001, p. 310). The author suggests several key attributes of a culture of evaluation and learning for a successful implementation of performance measurement system at local authorities: (a) a capacity for critical reflection, questioning and challenging existing practices, beliefs and values – overcoming the blame culture which promotes manipulative behaviour and achieving a high-trust culture which rewards honesty and risk taking; (b) a capacity for effective dialogue, collaboration and communication – breaking down both vertical and horizontal barriers to communication and extending beyond the authority to include external stakeholders; (c) a capacity for research and analysis to provide sound evidence upon which to base decisions, including recognition of the value of qualitative approaches which can help to foster dialogue with stakeholders and help to include and empower subordinate interests; and (d) a capacity for action planning and effective implementation to ensure that the required changes are achieved in practice.

2.6.2 Management by Numbers

New public management reforms rely heavily on quantitative performance indicators to describe outputs, outcomes, inputs and throughputs in managing public services. Hood (2007) suggests there are at least three major forms of managing by numbers: (i) target system, measuring actual performance against aspirational standards expressed as threshold numbers; (ii) ranking system, measuring performance of comparable service units against one another; and (iii) 'intelligence' systems, measure performance for background information.

Using number management as 'intelligence' system has long been applied in the form of statistics produced to aid policy makers. Target systems are also common; New Zealand developed quantified targets for public service outputs in the late 1980s and many countries follow. Government's statistical intelligence has also been long used as basis for comparative league tables by firms and public-interest bodies. Van de Walle (2006) noted

that the development of official international rankings of public service performance have been significant over the past two decades. It is difficult to say that managing by numbers is a new method as it has been applied for many decades. Hood (2007) argues that we are in 'history denial' by viewing management by numbers as a 'modern' way of managing public services.

Comprehensive mission statements, outcome-related goals and a description of how to achieve the goals are fundamental to achieve accountability for performance (Kluver, 2003). However, substantial problems arise in obtaining accurate and reliable data for measurement over longer time periods and with regard to the costs associated with doing so. The available data would encourage comparisons and thus lead to manipulation of performance data degenerating into a 'numbers' game' and obsession with counting numbers for questionable purposes. Pollitt (2006) found the UK stood out from three other countries in the degree of focus on performance indicators. Hood (2007) wrote that the pre-occupation with the use of target and ranking systems, the domination of the executive in using performance measures rather than the legislature (compared to other countries like Japan, France and the USA) and the distinctive way government-mandated rankings of public service provision have developed within the state in England specifically. Hood (2007) also questions whether the development of 'management by numbers in England is 'best practice' and 'English cure' for every country's public service problems or an 'English disease' that others should avoid.

Management by numbers might work but has some limitations. Flynn (1986) argues that there are so many problems with comparative data that they may not even be helpful in identifying broad problem areas. Hood (2007) suggests that management by numbers is not always straightforward, if there are aspirational standards expressed as numbers but without focus or priority in direction, too many numbers will confuse usage and categorisation as well as smudging the boundary between target and intelligence. Hood (2007) identifies three important things that are invisible about performance measures being used as targets, rankings or intelligence:

(i) the validity and reliability of complex composite performance measurement systems: unavoidable measurement error arises from various sources including simple mistakes, sampling errors, categorization errors, gaming and cheating;

(ii) coherent theories about what social conditions match up with what kinds of performance indicators in public service management: when to use what and their limitations (Table 5); and

(iii) the unintended effects of league-table or intelligence systems or the broader effects of target systems: these could involve more than passing embarrassment to include serious casualties among top management, long term effects, high

stakes targets and rankings lead to further losses of public trust in government statistics. (pp. 100-102)

Table 5: Three applications of performance measurement

Application of measures	Basic Principle	Simple example	Some variants	Comment
Targets	Stipulated floor standard of performance or change in performance to be achieved within some time period	Percentage efficiency savings or staff reductions required over a budgetary period	Specific targets (applying to individuals or particular organizations) versus global or sector-wide targets	Produce threshold and ratchet effects in behaviour of individuals and organizations subject to targets
Rankings	Data allowing comparison of performance on stipulated indicators among a set of rival units	Sporting leagues	Simple comparisons versus composite leagues (with numbers distilled from other numbers)	Produce output distortions and pressures to change the composition of the league and the nature of the game
Intelligence	Background information	Activity logs, for example of health care episodes	Anonymized data (for example for near-miss reporting) versus attributed performance data	Use in unpredictable by those performance is recorded; often combined with targets and rankings

(Source: Hood, 2007)

2.6.3 Publication of Performance Results- naming, blaming and shaming

Releasing information to the public is believed to have ability to enhance the motivation of service providers. Increase in motivation is driven by a desire to protect or enhance public reputation whereas knowing that performance is inadequate, but without public release, is not sufficiently motivating (Hibbard et al, 2003). These authors found that making performance information available publicly stimulates quality improvement in the areas where performance is reported to be low. However, publicizing performance information may also generate negative attitudes, anger and distrust. They found that having a national set of standard measures, appropriately evidence-based and vetted by a credible organization, could help remove some of the tension and provide assurance to those being assessed that what they are being held accountable for is fair and appropriate.

Hibbard et al (2003) suggest three key elements to enable the published performance to stimulate motivation and improvement:

(i)   the report must be widely disseminated in the community;

(ii)   the organisations (hospitals in their study) need to know that a future public report will be produced and widely disseminated again within a year or two; and

(iii)   the public report itself must be highly valuable – the report must be designed so that it is immediately obvious who the top and bottom performers are, and easy to understand and use.

Bevan and Hood (2006) argue that current audit arrangements encourage governance by target. Thus, measuring performance and updating the standards for target performance could help enhance improvement. The assessment process designed for local government seems to aim at encouraging improvement by local authorities which the local authorities will keep on striving to be better. Huang (1998) argued that skills, knowledge and intellect should be treated and managed as a strategic asset of an organisation, with the goal being to maximise the long term advantage over competitors. Stewart (1997) wrote that the intellectual capital of an organisation is a combination of its people's talents, management's efficiency and type of relationship it has with its customers which look beyond traditional assets to the ability of a company to learn and adapt.

2.7 Transparency, Public Trust and Confidence

REVIEW I

2.7.1 Transparency in the public sector

In accounting term, 'transparency' is called 'disclosure', the obligation to disclose an organisation's financial circumstances for the benefit of their creditors or principals (Hood, 2006). Governmental transparency can be explained as the ability to find out what is going on inside government (Piotrowski et al, 2007). Transparency has been generally supposed to make institutions and their office-holders trusted and trustworthy (O'Neill, 2002). Cases of untrustworthy politicians and officials have made trust a hard and risky issue. Therefore, remedies are needed to recover trust back by enhancing standards of accountability and transparency. Government imposes elaborate measures to make sure its agencies keep agreements and do not betray trust. Hood (2006, p. 19) suggests 'that transparency seemed to have established some kind of quasi-religious authority as contemporary doctrine of governance'. Increasing transparency as measured by some index may be different in reality due to the gap between nominal transparency and effective transparency (Heald, 2006a, pp. 34). The author described the gap as 'transparency illusion'. The author also notes that a receptor capable of processing, digesting, and using the information is necessary for effective transparency.

Heald (2006b) wrote that transparency is believed to positively connect to performance because exposure to public view works as stimulus. The author notes that, however, transparency about operational aspects of process can affect behaviour in unexpected ways. The author also suggests that introducing or increasing transparency may have damaging effects rather than beneficial except if it is seen to make a difference. The author explains that if transparency is beneficial if it could lead to cessation or reduction of corruption and

punishment of offenders. Public knowledge arising from greater transparency would lead to greater cynicism and possibly wider corruption if the corruption exposed continues. But if trust is constantly observed, it is hardly earned and easily dissipated (O'Neill, 2002). Huge efforts have been placed into ensuring trustworthy performance, auditors scrutinise accounts, examiners control and mark examinees, police investigate crimes but the question as to whether they are trustworthy remains. The author also argues that evidence of trust distrust is not easy to pick up when people have no choice, like the case of public goods and services, the only evidence available is what people say.

O'Neill (2006) wrote that many institutions and office-holders in UK of whom transparency requirements have been imposed across the last fifteen years are now seen as less trustworthy, and are apparently less trusted than they were before the requirements were introduced. The author further questioned the achievement of government notion that transparency is indispensable for accountability and good governance, for preventing corruption and improving performance; and for increasing trustworthiness and trust. Declining trust has led to a shift from relations based on trust and status to those based more explicitly on contractual relations (Hughes et.al., 1997).
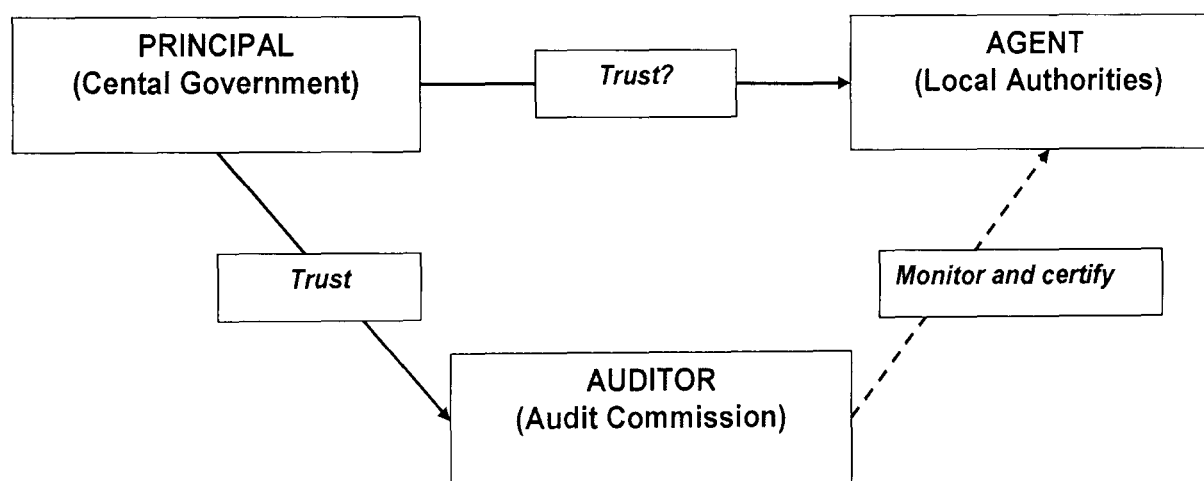
Figure 11: The Displacing of Trust
(Source: Author's diagram adapted from Power, 1994, 1997 and other readings)

Figure 11 is developed based on arguments in Power (1994; 1997) and other readings. The figure shows the displacing of trust by new accountability assurance mechanism. Instead of trusting local authorities, central government put their trust in the AC to monitor and certify local authorities. According to Power, audit displaces trust from first-order to second-order verification activities; besides displacing trust, the assessment done by the AC especially the Value for Money (VFM) theme in the UoR assessment involves a displacement from first order experts, such as teachers, social workers, police and so on, to second-order experts, such as accountants and managers. Power (1994) argued that:

> An irony that audits of this kind bring a shift from professions the public trusts more- such as doctors, police and teachers, to a profession the public trusts less (the accountants) at the instigation of a profession the public trusts least (the politician), (p.35)

Public confidence in public administration can be categorized to three fundamental principles, namely transparency, accountability and trust (Power, 1994). Therefore, when public trust is declining, public confidence will also decline. The author in his 1997 book (p. 134-136) discusses the issues on what he called as 'distrusting the auditees' and 'trusting the audit process' which resulted from the new public sector management. There is a persistent trend across the developed world that public confidence in public institutions is in a state of decline (Davies et al, 2001). In the public sector, public confidence will provides a bridge for mutual interest between the managers of service providers and the auditor. Publication of the performance result is very good to communicate performance and thus enhance transparency. Transparency also works to benefit service providers by allowing them to transfer liability and reduce risk.

O'Neill (2006) suggests that those who aim to communicate must fashion their speech-acts with care, take account of the actual capacities and beliefs of their audience and must meet a range of epistemic and ethical norms that are constitutive of adequate information. Only when those norms are met, transparency may then extend communication by making information available to some audiences. In the event when they are not met, transparency may worsen communication by spreading confusion, uncertainty, false beliefs, and poor information. O'Neill further states:

> Indeed, it is often all too plain that the real aim of certain practices of disclosure is *not to communicate*. Standard practices such as using print so small that many will find it hard to read, or terminology so arcane that most will find it hard to follow, suggest that warnings, documents, and labels are meant to *transfer liability* without *communicating risks effectively*. ... Information is disclosed, transparency is achieved: but what is going on is not really communication with customers or with the public, but a form of defensive risk management, by which companies can claim to have warned those who buy their products, so reducing blame and litigation in the event of mishap, while avoiding genuine communication with those whom they supposedly warn. (p. 88)

Power (2004) forwarded a similar argument that the real purpose of such uses of transparency is (it seems) not to protect the public or customers, but to protect providers and others by transferring liability for damage or injury. Stasavage's (2006) study of the European Council of Ministers found that secrecy of Council proceedings has led to serious problem of accountability, as a representative could say different things in public and private and avoid firm positions on policy.

Advancement of technology also contributes towards enhanced transparency, in which many government agencies including local governments use the internet to disseminate information. Margetts (2006, p. 205) suggests three ways in which government might become more transparent in this digital era, which the author termed as digitization of government:

i. the amount of information that government obtains and may disseminate becomes greater and being more accessible to more people;

ii.   the process of digitization involves formalizing and codifying aspects of government processes which in turn can become more stable, less discretionary, and hence more transparent; and

iii.   digital government also reduces the needs for transparency by making it easier to 'join up' government agencies and services and thereby reducing the need for citizens to understand government.

Although digitization may make government more transparent, there are barriers to it, such as, the uncertainty and unpredictability produced by electronic processes, increased complexity, and difficulty of navigating digital government because of its size or design (Margett, 2006).

Thus, the issue of balance between governmental secrecy and openness is always debatable. This is also due to different levels of individual demand for governmental transparency (Piotrowski et al, 2007). Some people strongly feel the need to access government information and learn about government activities while some are less interested. Furthermore, different people require different kinds of information (Heald, 2006b; Piotrowski et al, 2007). Piotrowski et al (2007, p. 320) found different dimensions to the public's demand for transparency in government: related to public finances, safety, the principle of open government and the notion of good or honest government. There is less public demand for transparency when the public perceives that government is already adequately opens (Piotrowski et al, 2007). The authors also noted that people who are involved politically and communicate frequently with government demand greater transparency. Several other studies found relationships between trust in government with perception of democracy (Marlowe, 2004); demand for transparency and satisfaction with government services (Van Ryzin, Muzzio and Immerwahr, 2004); and that civic participation is higher in smaller places than in larger ones (Oliver, 2001).

2.7.2 Expectation gap

Diversity of views about the audit function leads to different expectations about what auditing could provide and therefore the expectation gap occurs (Humphrey, 1997). The role-perception gap arises from different views regarding the role of audit and what can reasonably be expected of auditors by the shareholders or other users of audited financial statements which, in this research context, would be the general public which will include government officials and professionals. Different perceptions of the auditors' role could also arise from auditors, auditees and users view. The auditors could have their set of understanding and perception of what they should provide, while the auditees could have another different set of expectations. The target users in this research context, which are the local electors, might have other expectations, especially if they have no accounting knowledge. As written by Lee (1970):

'if auditors do not fully comprehend their auditing role in society, then how can non accountants be expected to understand it?' (p. 296)

Understanding the basic concepts and postulates about the audit function is important to understand why expectation gap exists. Humphrey (1997) wrote:

'... it is quite clear that the auditing function is not a unitary phenomenon and can be taken as meaning different things to different people.' (p. 23)

Flint (1988) argues that there has to be an explanation of why auditors do what they do, what they believe they achieve and what the public believes they achieve. There has to be an explanation of the nature, purpose, possibilities and limitations of auditing so that members of society who seek to draw benefit from the function can understand what they can expect to obtain (Flint, 1988, p.4).

Lee (1984) identified auditing as justifying, behavioural and functional postulates emphasised the importance of credibility assessment to investment decisions and stewardship functions, auditor independence and accountability, and the ability to obtain audit evidence in a cost effective manner. These approach is argued because the emphasis is more on the way that auditor should behave than on exploring the reasons why auditors may behave differently and why their performance may not reach expectations (Humprey, 1997). Flint (1988, p 14-15) wrote that auditing is wholly utilitarian. Mautz and Sharaf (1961) wrote that 'a profession exists ... to serve society'. However, Turley and Cooper's (1991) found that the benefits stressed by the methodologies of major audit terms are not expressed in terms of any societal role of auditing, but as a commercial service to the management of the company the are auditing.

Humphrey (1997) also wrote that various role-perception gaps could occur due to ignorance which can be overcome by the professional auditing bodies educating the recipients of audit services (and in some cases the auditors) as to what can reasonably be expected from an audit. Humphrey (1997) also wrote:

The difficulty in operationalizing these various categorizations of the audit expectation gap is that they rely heavily on the use of the word 'reasonable', and the implicit assumption that there exists one real, absolute way of looking at the audit function.' (p. 9)

Power (1997) argued that there is an 'expectation gap' between the explosion of demands and the expectations of auditing at a policy or system level and the reality of an audit's technical and operational capacity. Humphrey (1997), in discussing the audit expectation gap, divided his discussion according to four audit functions; audit assurance, audit reporting, audit independence, and audit regulation and liability. In terms of audit assurance, an expectation gap occurs because the audit report has always been viewed by users of financial statements and even auditors, as a certification, a guarantee of accuracy rather than a probabilistic statement (Lee, 1970). In terms of reporting, Humphrey said that due to misunderstandings of the nature of audit assurance, perceptions about the form and content

of audit reports also varies. He quoted CICA's (1988) study, which found that a significant proportion of the reader/investor public believes that an unqualified audit opinion is only ever issued in circumstances where company is not presently experiencing financial problems.

Studies of qualified audit reports have also revealed the gap between the intended message of an audit report and the meanings attributed to it by users (Craswell, 1985; Holt and Moizer, 1990; Estes and Reimer, 1977; Estes, 1982). In terms of the independence of auditors, expectation gap exists between the auditor's responsibility to perform and being seen to perform, in an unbiased manner, and the auditor's ability to operate in sufficiently independent fashion (Humphrey, 1997). Regulatory systems have been seen as a valuable way to ensure that auditors provide quality work and to discourage the provision of substandard work through a system of active monitoring and the punishment of poor quality work.

2.8 Summary

This chapter explores various research and literature related to external audit in the public sector. Issues related to the impact of external auditing of local government in the UK were discussed, which include the literatures on regulation inside government in particular by Christopher Hood and others and audit explosion by Michael Power. Christopher Hood and others have argued that external audit has been applied as a tool to inspect and assure governance and accountability at local authorities. Increasing reliance on auditing as a means of assurance for accountability and governance has also been contributed by the NPM agenda. Hood (1995) highlights seven doctrinal elements of NPM which change the way the public sector operates. Several authors in their description of the changes brought by NPM, concluded that NPM focuses on the principles such as accountability, competition, results, efficiency, disaggregation and incentivisation (Gray and Jenkins, 1993; Dunleavy and Margetts, 2000). Christopher Hood in his various articles argues that the new concept of accountability in the public sector indicates low trust in public servants and professionals whose activities need to be closely evaluated by accounting techniques and suggests that NPM deserves further inquiry and debate. Hood and others describe regulation inside government as a bureaucracy that aims to shape other organizations' activities, where the regulator has an official mandate to scrutinize and seek to change regulatee's behaviour. In achieving this regulation, Hood et al (1998, 1999, 2000) claim that a typical public bureaucracy is now facing scrutiny by a growing army of waste watchers, quality checkers, 'sleaze-busters' and other regulators as well as decreases in managerial discretion caused by stricter regulations, increased formality, complexity and intensity.

These changes have also caused an 'audit explosion', the term which was coined by Michael Power in describing the use of audit beyond its traditional function of certification of annual accounts. The author suggests that the existing audit and inspection ability to promote

improvement seems to be failing (1994) and that the search for auditability to accompany stricter regulation has produced a formalized self-regulation (1997). Power argues that the explosion of auditing has its roots in the loss of trust in society, and has become extremely important to be able to give account of one's action and responsibilities. As auditing has a history of providing assurance, it has been institutionalised as a provider of comfort and legitimacy. Power also suggests that an expectations gap in local government audit is unavoidable because auditing is assumed to have vague criteria for effectiveness. Power also raised questions in regard to how auditees will react and the ability of audit to penetrate the organization.

As for the local government in England, audit is being used as performance measurement instrument, with numbers attached to auditors' judgement to describe and rank local authorities. The results are then made available publicly. Publication of performance results based on the assessment regimes was intended at increasing transparency which is believed to have the ability to enhance trust. However, several issues arise in terms of what should be (is appropriate to be) disclosed, the extent of disclosure, what format is suitable, who should be the targeted user and other issues. In the effort to enhance accountability and transparency, the issue of trust and distrust also arise, as well as various other impacts. All of these issues have influenced local authorities' and their employees' behaviour, which this research aims to discover. Although Christopher Hood and Michael Power are quite critical of the assessment regimes and their impact on the public sector, understanding their ideas in approaching this study allows me to keep an open mind of the advantages and disadvantages of the changes as well as providing an opportunity to further explore issues relevant to the assessment regimes. This research will contribute theoretically and empirically on the extent of regulation inside government in particular at local government level. In view of the limited study on the audit explosion impact on auditees, this research will contribute theoretically and empirically to enlighten how auditees perceive the assessment regimes.

The next chapter will review the technical aspects of audit and performance measurement at local government in the UK.

3 REVIEW II: EXTERNAL AUDIT AND ASSESSMENT OF LOCAL GOVERNMENT IN ENGLAND

| Introduction | → | Literature Review II | → | Methodology | → | Findings & Discussion | → | Conclusions |
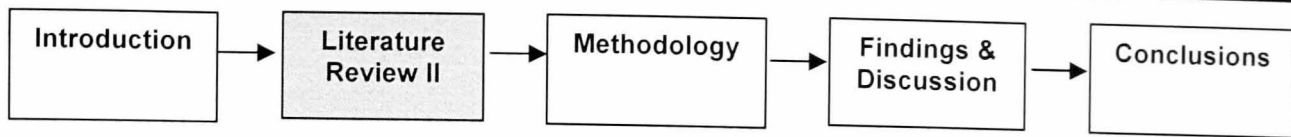
3.1 Introduction

This chapter extends the literature review for this study to explore technical aspects of the external auditing of local authorities in England. The review in this chapter is necessary because the main aim of this research is to explore how the external audit performed at local government in England is affecting local authorities. Therefore, it is important to first introduce local authorities and the external audit activities imposed on them. This chapter will introduce the subjects of this study; who are the auditees, local authorities in England, the Audit Commission, a body responsible for appointing external auditors for English local authorities, coordinating the audit work and reporting, and the external audit work conducted on the local authorities. Reviewing the topics in this chapter also fulfils my first research question which is: *'What are the functions of external auditors for local authorities in England?'* The word auditor will be used throughout this thesis to refer to the external auditor. The literature review topics outlined in Figure 3, Chapter 2 will be followed to guide the discussion in this chapter.
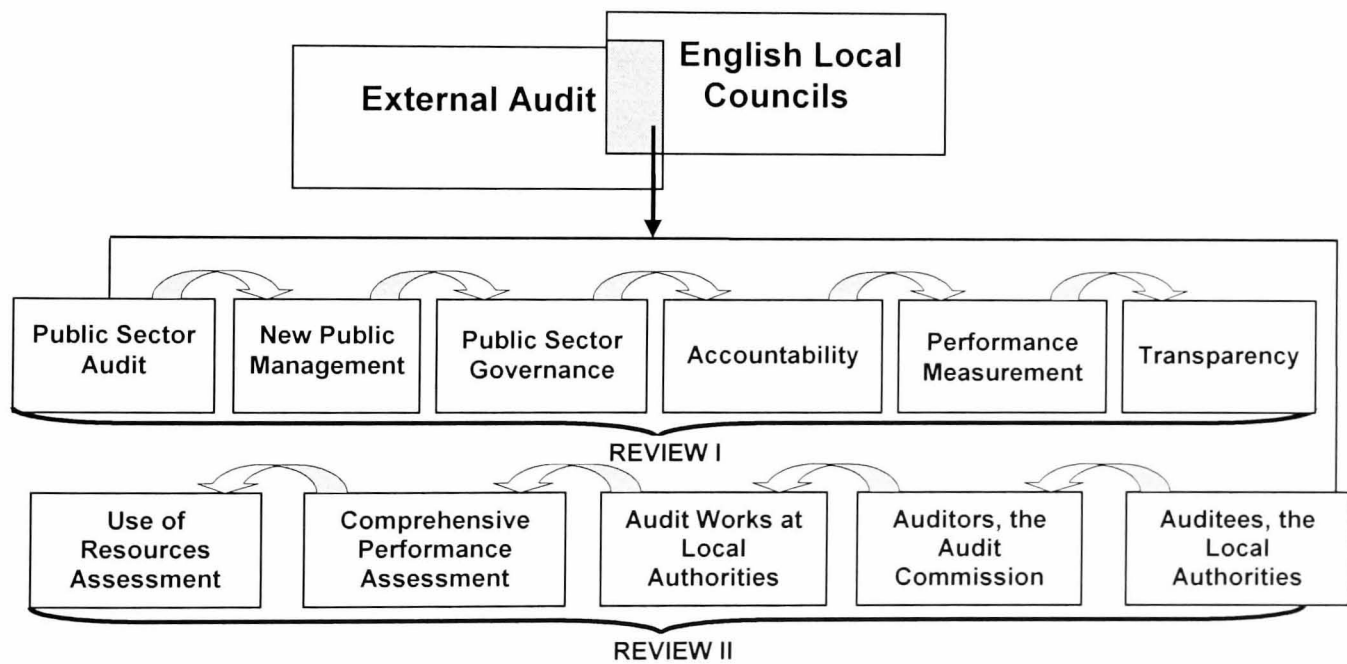
Thus the next section will explore the auditees which are local authorities in the UK and specifically local authorities in Yorkshire and The Humber, the focus region of this study.

3.2 The Auditees, Local Authorities in England

Auditees, the Local Government → Auditors, the Audit Commission → Audit Works at Local Government → Comprehensive Performance Assessment → Use of Resources Assessment

REVIEW II

The local governments included in this research are 22 local authorities in the Yorkshire and The Humber region in England. Therefore, this section will review the position of these 22 local authorities relative to all local authorities in the United Kingdom (UK).

Figure 12: The Countries in the United Kingdom
Source: http://www.worldatlas.com/webimage/countrys/europe/lgcolor/ukregions.htm, accessed 3 September 2007

Figure 12 above shows countries in the UK. The UK is union of individual countries of England, Scotland and Wales, collectively called Great Britain, and the north-eastern part of Ireland, the constitutionally distinct region of Northern Ireland. England is the biggest country followed by Scotland in the north. Wales and Northern Ireland are relatively small compared to England and Scotland. There are 468 local authorities throughout the UK. Figure 13 shows the distribution and types of local authorities in the UK.

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          ┌─────────────────────────────────────────────────┐
          │  TOTAL NUMBER OF LOCAL COUNCILS IN THE UK: 468   │
          └─────────────────────────────────────────────────┘
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| ENGLAND: 388 | WALES: 22 | SCOTLAND: 32 | N. IRELAND: 26 |

| 34 county councils |

| 47 unitary councils |

| 36 metropolitan councils |

| 33 London boroughs | | 22 unitary |

| 238 district councils |

| 32 unitary councils |

| 26 unitary councils |
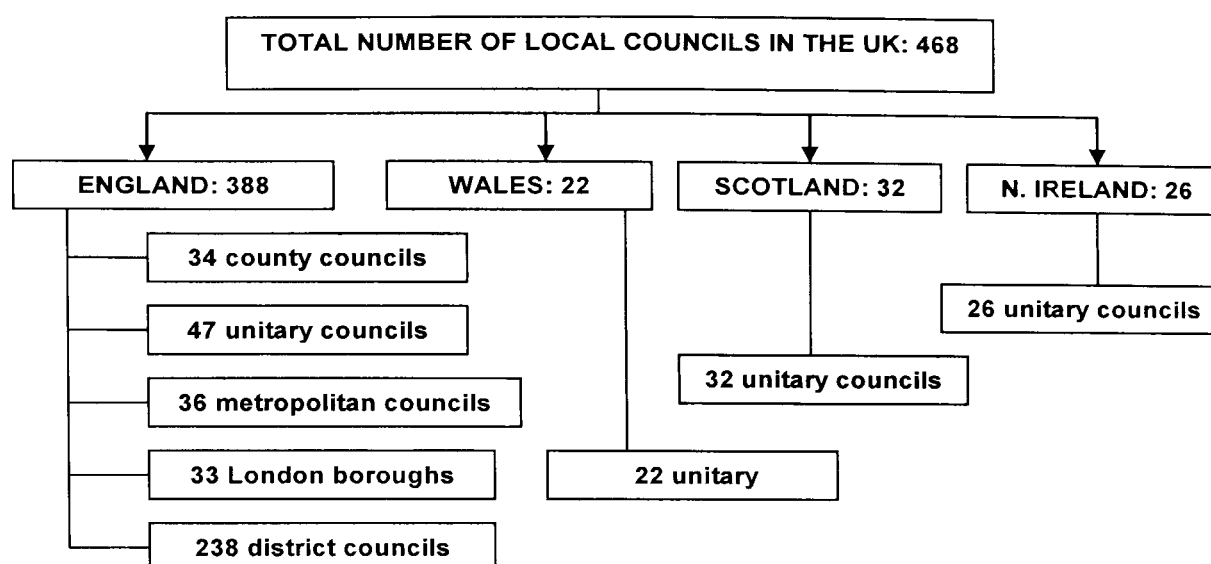
Figure 13: Numbers and Types of Local Authorities in the UK and England

(Authors diagram compiled from Llewellyn, A., (2006) Local Authority Directory)

Out of 388 local authorities in England, 22 are chosen for this research. The 22 local authorities drawn for this study are one county council, seven district councils, four unitary councils and nine metropolitan councils. These local authorities are responsible for providing various services to the local community depending on their types. Several local government reorganisations have been performed in 1973, 1986 and the 1990s which resulted in many changes in the structure of local government and to service provision. Currently two models of service provision apply, single tier and two tiers, which determine what services and which authority is responsible. Table 6 below presents information on the local authority types in England, including their service responsibilities.

Table 6: Single Tier versus Two Tier Model

SINGLE TIER		TWO TIERS
Major urban areas, London, West Midlands (around Birmingham), Greater Manchester, Merseyside (around Liverpool), South Yorkshire (around Sheffield), West Yorkshire (around Leeds) and Tyne and Wear (around Newcastle-upon-Tyne).	Outside the major urban areas	Outside the major urban areas
- *London Borough Councils* (in London) - *Metropolitan District Councils* (in other areas)	*Unitary councils* (1990s reorganisation and consultation)	- *County Councils*, each covering a population in a rough range of 500,000 to 1,500,000 - *District Councils*, between 4 to 14 in every County Council, covering a population of about 100,000
Service Provision: *Metropolitan District and Unitary Councils:* Education, Housing, Planning (applications) and Building Control, Strategic Planning, Transport Planning, Passenger Transport, Highways, Police (not a direct function), Fire, Social Services, Libraries, Leisure and Recreation, Waste Collection, Waste Disposal, Environmental Health, Local Taxation (collection), Trading Standards		*Service Provision:* *County Councils-* Education, Strategic Planning, Transport Planning, Passenger Transport, Highways, Police (not a direct function), Fire, Social Services, Libraries, Waste Disposal, Trading Standards; *District Councils-* Housing, Planning (applications) and Building Control, Leisure and Recreation, Waste Collection, Environmental Health, Local Taxation (collection)

(Source: Adapted from Llewellyn, 2006)

Unitary authorities are a result of reorganisations in the 1990s when the central government view that the two tier model was inefficient and confusing because County Councils were too remote from those they served (Stevens, 2006). This view suggested that County Councils be abolished and their functions transferred to District Councils, with some of the smaller Districts being merged. This was implemented in Scotland and Wales but a process of local consultation in England was done which led to the single tier model being supported in some places and rejected in others. Thus, in England, the two-tier model still applies which also involved local authorities in the studied region of Yorkshire and The Humber.

All local authorities in the UK are subject to traditional financial auditing similar to that in the private sector but extended to cover performance audit. Different governing bodies are responsible for the audit in different countries of the UK. Audit Scotland and the Northern Ireland Audit Office are responsible for governing the audits for Scotland and Northern Ireland, while the Audit Commission governs the audit for England and Wales. Though the Commission is responsible for managing and reporting of the audit for both England and Wales, the system of external audit for both countries are different. The Commission manages and reports separately for England and Wales. This study concerns the external audit governed by the Commission for England only as local councils in England are subject to a more developed external audit system introduced by the Commission.

England is divided into a wide variety of boroughs, counties, cities, districts and regions. For coordination, the government has set up a network of government offices for every governmental region called Government Offices for the English Regions with its own national co-ordination centre called Regional Co-ordination Unit located in London. There are nine English Governmental regions for England as shown in Figure 14.
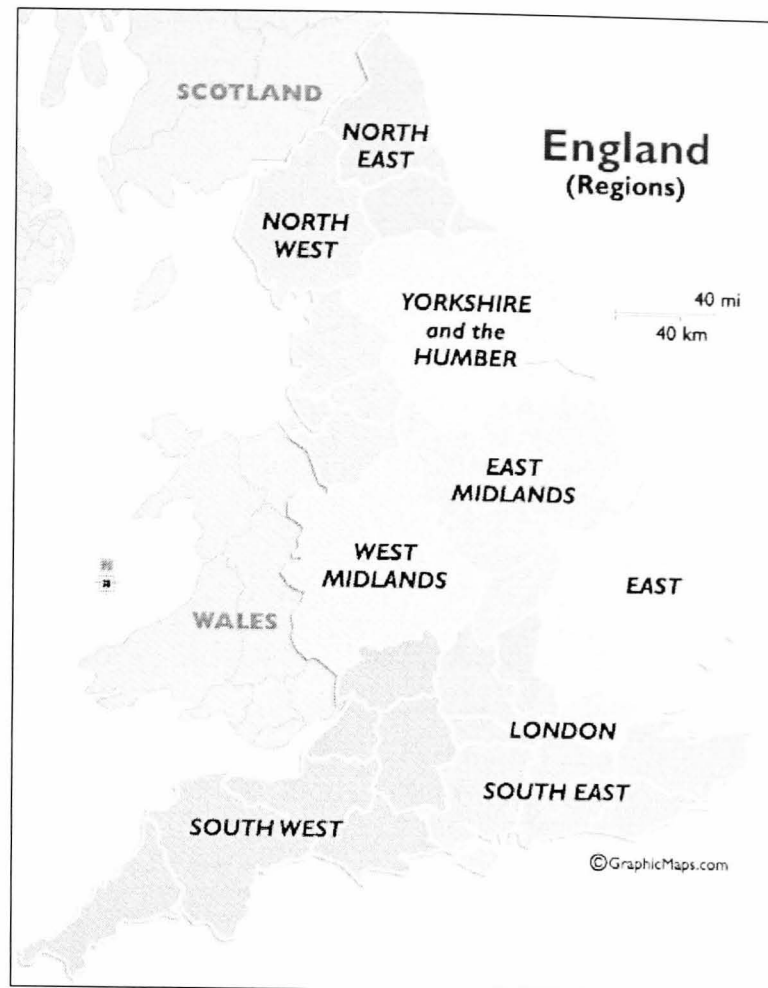
Figure 14: England Governmental Region
Source: http://www.worldatlas.com/webimage/countrys/europe/lgcolor/ukeregions.htm, accessed 3 September 2007

The nine Government Office Regions regions are North East, North West, Yorkshire and The Humber, East Midlands, West Midlands, East of England, South West, London and South East. Each government office region has its own government office located in their area. Figure 15 shows the government regional offices.
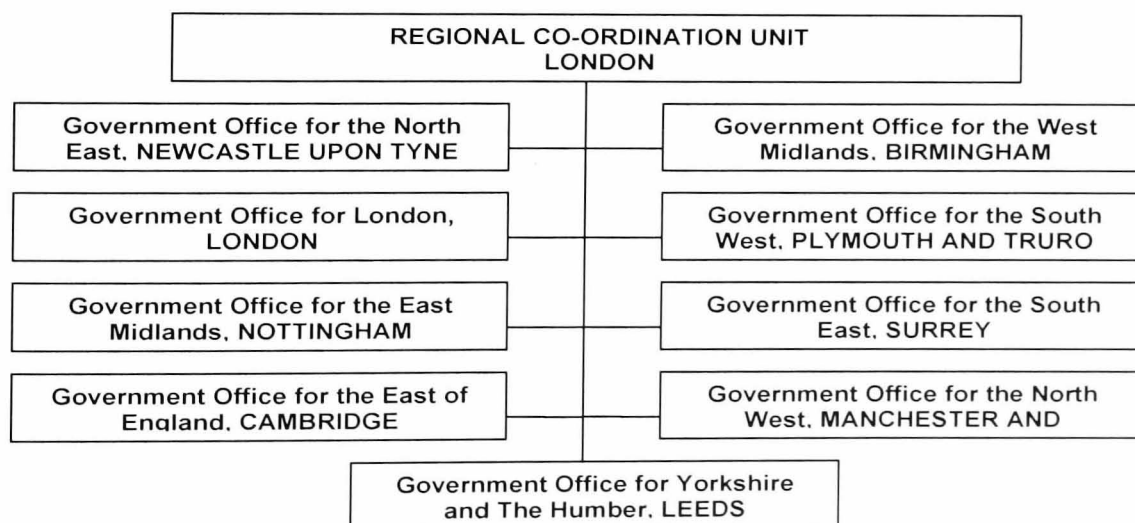
Figure 15: Government Offices for the English Regions
Source: http://www.gos.gov.uk/contactus

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The Government Offices for English regions represent ten Whitehall Departments and are the primary means by which a wide range of Government policies are delivered in the English regions. Their work covers the area of services provided by government throughout English regions which are Children and Young people, Community Safety, Culture and Leisure, Economy, Education and Skills, Environment and Rural. The Government Offices also work with local councils to help them improve service delivery and value for money, and to promote better policy integration across the country. An excerpt below was taken from the Government Offices' website on the various ways they work with local councils:

i. advising local authorities on Government policies and in turn using their local knowledge to influence new policies affecting local government;
ii. negotiating Local Area Agreement;
iii. assessing their 'Capital Strategies' and 'Asset Management Plans' as part of 'Single Capital Pot' programme (where the government provides the bulk of capital support to local authorities as one, replacing previous separate allocations of transport, housing, education, heath and others), and providing feedback on their performance;
iv. advising Government on their bids for the Beacon Council and 'Invest to Save' programmes; and
v. working closely with the poorest performing authorities, as identified in the Comprehensive Performance Assessment process, to help address identified weaknesses and prepare recovery plan.
Source: http://www.gos.gov.uk/contactus, last accessed 7 September 2007

Because external audit is part of the Comprehensive Performance Assessment (CPA) process coordinated by the AC, the external audit performed on local councils is based on the nine government regions. An audit office is set up for each government region to organize the audit work and reporting. Information on the audit offices and auditors will be discussed in section three of this chapter.

All local councils in England are subject to various audit functions: the audit of financial statements; review of the corporate governance statements and of the standards of financial conducts; certification of grant claims and performance audit. Previously done as a value for money inspection; the performance audit is now known as Use of Resources (UoR) assessment. Detail on the performance audit will be discussed in sections four, five and six of this chapter. A total of 150 single tier and county councils throughout England have been subject to the UoR assessment since 2002 when the CPA regime was first introduced. The 238 district councils were introduced to the CPA only from 2003, but the UoR assessment was first done in 2006 to assess the year ended March 2005.

For reasons of practicality, to enable this study to be completed within three years and limited financial resources, only one government region, Yorkshire and The Humber is chosen. This study is intended to shed light on the impact of external audit on local authorities from the auditees' point of view, which will begin with exploring: the auditees; auditors and their work; published results and finally the auditees' view. Thus detail analysis will be maintained on the focus region, where the 22 local authorities will each represent a case-study. Table 7 shows the composition of local authorities in Yorkshire and The Humber region.

Table 7: Local Authorities in the Yorkshire and The Humber Region

Audited Body	Type
North Yorkshire	County Council (CC)
Barnsley	Metropolitan District Council (MDC)
Bradford	Metropolitan District Council
Calderdale	Metropolitan District Council
Doncaster	Metropolitan District Council
Kirklees	Metropolitan District Council
Leeds	Metropolitan District Council
Rotherham	Metropolitan District Council
Sheffield	Metropolitan District Council
Wakefield	Metropolitan District Council
East Riding of Yorkshire	Unitary Authority (UA)
Kingston-upon-Hull	Unitary Authority
North East Lincolnshire	Unitary Authority
North Lincolnshire	Unitary Authority
York	Unitary Authority
Craven	District Council (DC)
Hambleton	District Council
Harrogate	District Council
Richmondshire	District Council
Ryedale	District Council
Scarborough	District Council
Selby	District Council
Humberside PA	Police Authority (PA)
North Yorkshire PA	Police Authority
South Yorkshire PA	Police Authority
West Yorkshire PA	Police Authority
Humberside FRA	Fire and Rescue Authority (FRA)
North Yorkshire FRA	Fire and Rescue Authority
South Yorkshire FCDA	Fire and Rescue Authority
West Yorkshire FCDA	Fire and Rescue Authority

There are 30 local authorities altogether in Yorkshire and The Humber region of which 22 are the local councils, four are police authorities and another four are fire and rescue authorities. Among the 22 local councils, only North Yorkshire is a county council with seven district councils in its area, where this is a two-tier system. Elsewhere in the Region there are five unitary councils and nine metropolitan district councils that provide the full range of local government services on a single-tier basis. There are four police authorities and four fire and rescue authorities servicing the population of the 22 local councils. Every police and fire and rescue authority covers specific designated area of responsibility.

All these authorities have to prepare their own Statement of Accounts, which will be audited by external auditors appointed by the AC. The external auditor's work for these police and fire and rescue authorities also extends beyond financial audit, as for other authorities. However, only the 22 local councils will be considered throughout this thesis because this study concerns the UoR assessment in the CPA framework. Police and the fire and rescue authorities each have different assessment frameworks and were introduced to the assessment system much later than the local councils.

As this study involves evaluation of local authorities' performance, Table 8 shows information on the area, population and 'larger towns and cities' for the region.

Table 8: Yorkshire and The Humber Region- Demographic Information

Audited Body	LA Type	Cities*	Population**	Area (hectares)**	Population /Hectare
North Yorkshire	CC		569, 700	803,741	0.71
Barnsley	MDC	Barnsley	218,100	32,863	6.64
Bradford	MDC	Bradford	467,700	36,635	12.77
Calderdale	MDC		192,400	36,346	5.29
Doncaster	MDC	Doncaster	286,900	58,276	4.92
Kirklees	MDC	Huddersfield	388,600	40,860	9.51
Leeds	MDC	Leeds	715,400	55,175	12.97
Rotherham	MDC		248,200	30,760	8.07
Sheffield	MDC	Sheffield	513,200	36,333	14.12
Wakefield	MDC	Wakefield	315,200	33,317	9.46
East Riding of Yorkshire	UA		314,100	240,768	1.30
Kingston-upon-Hull	UA	Hull	243,600	7,145	34.09
North East Lincolnshire	UA	Grimsby	158,000	19,227	8.22
North Lincolnshire	UA		152,800	85,000	1.80
York	UA	York	181,100	27,200	6.66
Craven	DC		53,600	117, 994	0.45
Hambleton	DC		84,100	131,158	0.64
Harrogate	DC		151,300	130,471	1.16
Richmondshire	DC		47,000	131,867	0.36
Ryedale	DC		50,900	150,966	0.34
Scarborough	DC		106,200	81,678	1.30
Selby	DC		76,500	60,190	1.27

Sources: *Based on the 56 larger towns and cities described by John Prescott, Deputy Prime Minister in the 'Urban Research Summary', Number 18, 2005, Office of the Deputy Prime Minister.
**Based on Llewellyn, A. (2006) *Local Authority Directory 2006*, The Guardian, Sage Publication, London

The Yorkshire and The Humber region covers 1,426,235 hectares of England and has a total population of 4,964,900. Having a city in an area indicates some extent of economic prosperity, a better job market which would invite quality employees for local authorities and higher population density. From the table above, there are 10 out of 56 'larger towns and cities' in England located in the region. Those 'larger towns and cities' are Barnsley, Bradford, Doncaster, Huddersfield, Leeds, Sheffield, Wakefield, Hull, Grimsby and York. None of the 'larger towns and cities' are located in North Yorkshire indicating its relative remoteness.

Population also determines the amount of grant allocation from central government and the larger the area, servicing would become more complicated. Although North Yorkshire covers 56.35 percent of the region's area, population density is less than one person per hectare. The next largest authority after North Yorkshire in terms of area is East Riding of Yorkshire, covering 17 percent of the region. In terms of population, Leeds has the highest followed by North Yorkshire, Sheffield, Bradford and Kirklees. The population of North Yorkshire, represents the total population of all its seven district councils, is slightly more than Sheffield and about 150,000 below the population in Leeds. Comparing populations for each hectare in the region, Hull has the highest number of people for every hectare which is 34, followed

by Sheffield, 14, Leeds and Bradford, both 13. The district councils in the region have the lowest population density.

3.3 The Auditors and the Audit Commission

The major difference from private sector audit is that while the external auditor for companies is their choice, but the auditors for local councils are appointed by the AC, which is an independent body. Hollingsworth et al (2006) wrote that the AC was created at a time when conflict between local and central government was particularly heightened. It was widely seen as part of the first Thatcher government's package of measure to curb local powers and was regarded with suspicion and hostility by many people in local government. However, the AC has increasingly been seen as an independent body over the past decade. The AC was established by the Local Government Finance Act 1982 to accomplish a range of functions related to external audit of local government. The AC functions then extended to include National Health Service bodies in 1990 by the National Health Service and Community Care Act. The AC claims that the fact that local government and NHS bodies do not appoint their own auditors helps to ensure that auditors are entirely independent and seen to be independent. The AC currently appoints auditors to:

- 433 local authorities;
- 350 NHS bodies;
- 38 police authorities;
- 96 other 'principal' bodies, including fire and rescue authorities, national parks authorities and probation boards; and
- 9,700 local councils (parish and town councils).

(www.audit-commission.gov.uk/aboutus/whatwedo/audit.asp)

The AC commenced its task in 1983, taking over responsibility for the local government District Audit Service from the Secretary of State for the Environment. District auditors had exclusive responsibility for the audit of local government for approximately 130 years, until the Local Government Act 1972 gave local authorities the choice of whether to have their accounts audited by a district auditor or by a private firm of auditors (Hollingsworth et al, 2006). However, in 1976, the Layfield Committee concluded that it was wrong for any public body to be able to choose its own auditors and recommended that auditors should be completely independent of both central and local governments.[6] The Committee proposed the creation of a new body to which auditors should report but this was rejected by the

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[6] http://www.local.odpm.gov.uk/finance/stats/lgfs/lgfs15/index.htm

government at that time. The Public Account Committee and the then Expenditure Committee of the House of Commons later suggested that the District Audit Service become the responsibility of the Comptroller and Auditor General (C&AG). This idea was also rejected and the arrangements for local government audit remained unchanged until the AC was established.

The AC was first established as an executive Non-Departmental Public Body (NDPB) accountable through the Secretary of State to Parliament before been reclassified to become a Public Corporation (PC) in 2005[7]. The reclassification neither changes the AC's functions nor its governance. The Department for Communities and Local Government (DCLG), the AC's sponsor Department, have stated that the AC should treat itself as a NDPB for most governance purposes. The AC follows the requirements of the executive NDPB in many aspects especially when there is no specific guidance available for a PC[8] (http://www.audit-commission.gov.uk/contact/foipublicationscheme.asp). The Cabinet Office (2006) (www.cabinetoffice.gov.uk) explained that both the executive NDPBs and the PCs are to carry out their functions[9] independently at arm's length from the government:

> NDPB is established to permit a service or function to be carried out independently at arm's length from the Government. These are bodies which have a role in the process of national government but which are not formally part of any government department. They function deliberately at a remove from Ministers.
> Public Corporation may also have the characteristics of an NDPB, a Trading Fund Executive Agency or an NHS body. Where it is a TFEA or NHS bodies, this is the principal classification for Cabinet Office purposes, but in other cases it will normally be a PC for the purposes of the Public Bodies' database if it fits the relevant criteria.

Thus, the AC is now a statutory corporation constituted under the Audit Commission Act 1998 which has statutory functions given to it by the Act and other legislations –Education Act 1997, The Local Government Act 1999, The Freedom of Information Act 2000, The Local Government Act 2003, The Health and Social Care (Community Health and Standards) Act 2003, Fire and Rescue Services Act 2004, Children Act 2004 and Public Audit (Wales) Act 2004 (Audit Commission, 2008a). The AC is jointly sponsored by the Secretary of State for Communities and Local Government (SSCLG) and the Secretary of State for Health (SSH). The sponsoring Departments, SSCLG consulted with the SSH, appoint Commissioners which is called Audit Commissioners. The Audit Commissioners are normally appointed for a period of three years with the possibility of re-appointment for a further period. There is a statutory minimum of 15 Audit Commissioners and a maximum of 20, but from 1 August 2009, the requirement will change to a minimum of 10 and maximum of 15 (Audit Commission, 2008a).

The formal Governing Board of the AC consists of several Commissioners and a Chairman. The Governing Board are responsible for setting the AC's values, standards, strategies, and

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[7] http://www.civilservice.gov.uk/other/agencies/publications/pdf/public-bodies/publicbodies2006.pdf
[8] http://www.audit-commission.gov.uk/contact/foipublicationscheme.asp
[9] http://www.civilservice.gov.uk/other/agencies/publications/pdf/classification_guidance_aug05.pdf

objectives during their 6-weekly meetings. The Governing Board also determines the budget and how the AC performs its functions, monitors its performance and accountability, and is responsible for ensuring the AC acts within its statutory remits. A team of Managing Directors led by the Chief Executive is responsible for the day to day operation of the AC.[10] The AC currently employs around 2,500 people throughout England. The AC's corporate services (communications, human resources and payroll) are based at main offices in London, Cardiff and Bristol. Supporting the main offices is a network of regional offices where the auditors and inspectors are based. Figure 16 shows the AC's position in relation to the central government, local authorities and other inspectorates throughout England in delivering the CPA regime.
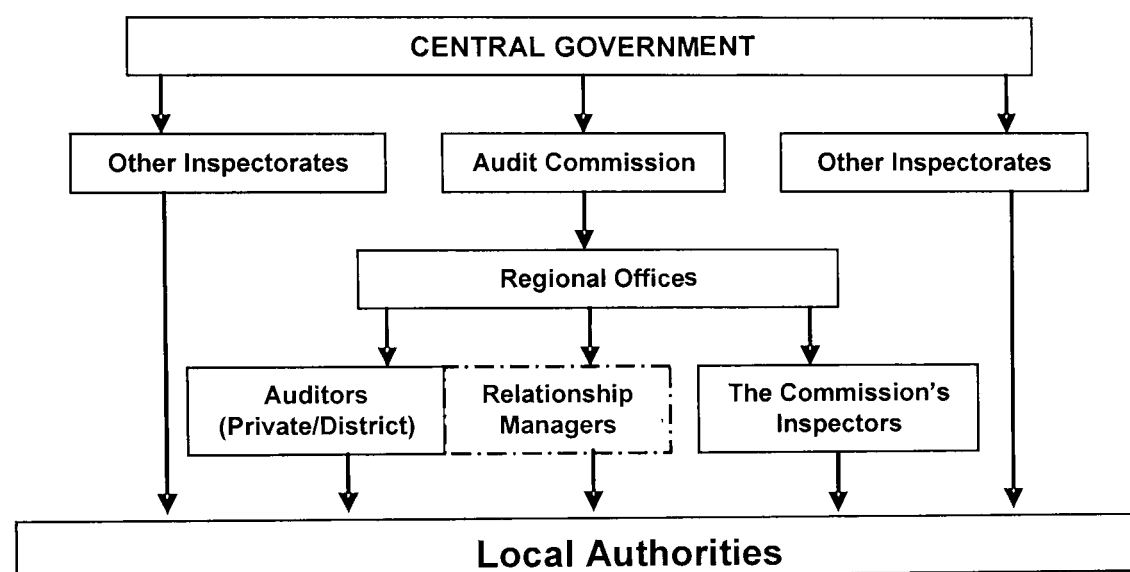
Figure 16: Actors Involved in CPA

(Source: Authors Diagram compiled from Audit Commission's documentations)

As shown in the diagram above, boxes at second level of the diagram from top, there are several inspectorate body agents of central government inspecting on the accountability and quality of services delivery of local authorities including the AC which is responsible for administering the CPA. Under the CPA regime the inspectorates neither link with each other nor share information gathered from the local authorities. This sometimes causes local authorities to provide similar information multiple times to different inspectorates. Below the AC are the networks of regional offices, where the auditors, relationship managers and other inspectors are based.

The appointed auditor for each local authority could come from the AC's staff referred to as the district auditors or from private audit firms. The relationship manager represented by dotted-line box in the diagram and attached the auditor's box is a member of the AC's staff. A local authority will have the same person act as auditor and as relationship manager at times especially when their auditor is the District Auditor. The relationship manager was responsible for writing the Annual Audit Letter to the local authority but the function is no longer available since 2007 (their function is now performed at the AC level with input from

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[10] http://www.audit-commission.gov.uk/aboutus/howwearerun/

auditors). Besides the auditors and relationship managers, the AC also appoints various inspectors to meet their many inspection and judgment responsibilities under the CPA. These inspectors are the AC's agents to carry out inspections on aspects other than the UoR assessment in the CPA.

The inspection and judgment for the UoR assessment and the financial accounts remains the auditors' responsibility and will be the focus of this study. For management structure reasons, the AC breaks England into four regional management areas (the AC's management region). Each AC management region has a number of audit offices to cater for each government region. Table 9 shows the network of audit offices for the nine government regions within the AC's management region.

Table 9: Audit Commission's Network of Regional Audit Offices for England

Commission's Regional Management Area	Government Region	Audit Office
NORTHERN	North East	Gateshead
	North West	Bolton
	Yorkshire and The Humber	Leeds
CENTRAL	East Midlands	Thurmaston
	West Midlands	Solihull
	East of England	Stevenage
SOUTHERN	South West	Bristol
		Exeter
	South East	Winchester
LONDON	London	Millbank

(Source: Adapted from Audit Commission's information at www.audit-commission.gov.uk)

The four management areas are Northern, Central, Southern and London. There are several audit offices within the AC management region. Every government region has one audit office except for South West region which has two audit offices. The audit office for London region is located near the AC's head office in London. Each AC's management region has a number of relationship managers and lead managers attached with the audit offices. The lead managers are professional leads on a particular aspect of the AC's work in that region. The relationship managers were the main point of contact between the AC and the audited council they were assigned to before the function was stopped in 2007 and the AC took over their responsibility for writing the annual audit letters.

At present 70 percent of local authorities' audits are done by the District Auditor and 30 percent carried out by private sector audit firms which have demonstrated that they have necessary skills, expertise, and resources to deliver high quality audits that meet the AC standards. Private sector audit firms currently auditing local governments are:

- Baker Tilly;
- Deloitte;
- KPMG;
- PKF;

- PricewaterhouseCoopers;
- Mazars; and
- Grant Thornton.

(www.audit-commission.gov.uk/aboutus/whatwedo/audit.asp)

The AC appoints auditors for an initial five year period. The appointment can be extended allowing auditors to add significant value and insights to benefit audited bodies. However, the engagement lead is required to be changed at least once in five years to comply with ethical standards for auditors issued by Auditing Practices Board (APB). The AC also rotates audits from time to time between suppliers to provide a fresh view and to strengthen the audit. The AC applies the following policies in making audit appointments from 2007/08, (the underlined portion are those related to the focus region):

(i)   prioritize the need to <u>maintain and avoid possible threats to auditor independence</u>;

(ii)   seek <u>to rotate the audit supplier at any body where that supplier has been the auditor for ten years or more</u> wherever possible;

(iii)   appoint only District Auditors from the Regions as auditors to Strategic Health Authorities;

(iv)   appoint no more than three audit suppliers to the: (a) Police authorities; (b) Fire authorities; (c) Probation boards; (d) National parks authorities; (e) Passenger transport executives and authorities; and (f) Waste disposal authorities;

(v)   appoint the same appointed auditor to London borough, metropolitan, and unitary councils and their coterminous PCTs wherever possible;

(vi)   seek <u>to meet audited bodies' expressed preference for a change of audit supplier or for a particular audit supplier</u>, subject to the overriding need to maintain auditor independence and to meet its contractual commitments to individual firms;

(vii)   <u>exempt from the ten-year rotation policy any body where the engagement leader would have been in post for only two years</u> immediately prior to when the rotation would be due to take place, unless specifically requested otherwise;

(viii) seek <u>to provide the firms and the Regions with portfolios of appointments that are economically and practically viable, by appointing them wherever possible to a logical geographical cluster of bodies, taking into account ease of travel</u>

(ix)   seek <u>to make changes in appointments in such a way as to minimise the short-term disruption</u> to business and people for both the outgoing and incoming audit supplier to allow them both sufficient time to re-plan resource allocation for the future;

(x)   seek, wherever possible, <u>to provide the firms and the Regions with portfolios of appointments which are balanced in terms of perceived risk and performance</u>;

(xi)   seek <u>to meet, wherever possible, the firms' and the Regions' preferences for a portfolio of appointments which gives their staff a mix of work and provides opportunities for staff development</u>.

(www.audit-commission.gov.uk/aboutus/whatwedo/audit.asp)

The auditors from private firms are appointed on tendering and contract basis. The AC staffs based at audit offices within each of the AC management regions meet and discuss the audit process before submitting their work to the AC head office in London. The Northern audit management region has three audit offices based in the government regions of North East, North West and Yorkshire and The Humber. The auditors and staff based at these audit offices work together in coordinating their judgments and scores before the AC's national-level meeting. Table 10 shows information on the auditors and relationship managers,

2006/07 for the focus region of this study, Yorkshire and The Humber, which is in the Northern Audit Region.

Table 10: Relationship Managers and Auditors for 2006/07

Local Councils	Type	AUDIT SUPPLIER 2006/07	APPOINTED AUDITORS	AUDIT MANAGERS	Relationship Managers
Barnsley	MDC	RSM	RSM Robson Rhodes	Paul Hughes	Sue Sunderland
Bradford	MDC	AC(NR)	Paul Lundy	Rachel Lindley	Joanne McDonough
Calderdale	MDC	PwC	Pricewaterhouse Coopers	Tash Scarisbrick	Joanne McDonough
Doncaster	MDC	AC(NR)	Sue Sunderland	Phil Parkin	Sue Sunderland
Kirklees	MDC	AC(NR)	Paul Lundy	Simon Dennis	Paul Lundy
Leeds	MDC	KPMG	KPMG	Lynsey Simenton	Paul Lundy
Rotherham	MDC	KPMG	KPMG	Richard Foster	Sue Sunderland
Sheffield	MDC	AC(NR)	Sue Sunderland	Dave Phillips	Sue Sunderland
Wakefield	MDC	AC(NR)	Paul Lundy	Graham Kettles	Paul Lundy
York	UA	AC(NR)	Mark Kirkham	Alastair Newall	Mark Kirkham
East Riding Of Yorkshire	UA	AC(NR)	Mike Newbury	John Wareing	Michael Newbury
Kingston Upon Hull	UA	AC(NR)	Mike Newbury	Alan Oliver	Michael Newbury
North East Lincolnshire	UA	AC(NR)	Mike Newbury	Chris Hartley	Michael Newbury
North Lincolnshire	UA	RSM	RSM Robson Rhodes	Neil Smurthwaite	Michael Newbury
North Yorkshire	CC	AC(NR)	Mark Kirkham	Rob Chambers	Mark Kirkham
Craven	DC	AC(NR)	Mark Kirkham	Richard Craigen	Mark Kirkham
Hambleton	DC	AC(NR)	Mark Kirkham	Richard Craigen	Mark Kirkham
Harrogate	DC	AC(NR)	Mark Kirkham	Julie Talbot	Mark Kirkham
Richmondshire	DC	AC(NR)	Mark Kirkham	Richard Craigen	Mark Kirkham
Ryedale	DC	AC(NR)	Mark Kirkham	Peter Hanmer	Mark Kirkham
Scarborough	DC	AC(NR)	Mark Kirkham	Peter Hanmer	Mark Kirkham
Selby	DC	AC(NR)	Mark Kirkham	Peter Hanmer	Mark Kirkham

(AC(NR): Audit Commission, Northern Region; Source: Compiled from the AC's publications)

The AC has statutory power to appoint auditors, prescribe how they should perform their functions through a Code of Audit Practice (prepared by the AC under the Audit Commission Act 1998), set scales of fees for audit work and make arrangements for certifying grant claims and returns (the functions will be explained in Section 3.4). The AC claims that it aims at securing high quality, value for money audits through a mixed economy of suppliers and to promote a consistent approach both between different auditors and across the country. The AC may appoint an officer of the AC (District Auditor), a firm or an individual who is not an officer of the AC to perform an audit providing that they are appropriately qualified as defined by the Act. Before making appointments of auditors to local government bodies, the AC has a statutory duty to consult the body. The AC also issues guidance annually to auditors under section 3(8) of the Audit Commission Act 1998 and paragraph 7 Schedule 1 to the Act. The AC annual guide includes the audit planning documents, annual audit letter, reports and other audit outputs for auditors.

The AC's main activities include (i) appointing the external auditors to local authorities (including police and fire authorities), local probation boards and health service bodies in England; (ii) assessing performance through its auditors and inspectors of the local authorities (including police and fire authorities), NHS bodies and housing associations; (iii) promoting improvement in public services provided by bodies subject to audit in England through the work of its auditors and inspectors, its national reports and working with other regulators and stakeholders; and (iv) undertaking data matching exercises in order to assist in the prevention and detection of fraud. The appointed auditors are mainly responsible for auditing the financial statements of local authorities and for auditing the arrangements for securing economy, efficiency and effectiveness in the use of resources. In carrying out their responsibilities the appointed auditors can ask for representations from management on important matters, both orally and in writing. However, to avoid prejudice of the auditors' independence of the body they audit, the audit roles performed by auditors do not include providing financial or legal advice or consultancy to the audited body.

The management of every local authority, its members and officers, are accountable to ensure that their council's business is conducted in accordance with the law and proper standards. They have to ensure that money is safeguarded and properly accounted for, and is used economically, efficiently and effectively. They are responsible for establishing proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal and to report their arrangements in their annual governance statement. They have responsibility to assist their auditors by providing all necessary documentations and explanation. They are also allowed to have dialogue with their auditors so the audit work is executed smoothly.

3.4 Audit Works at Local Authorities in England

Auditees, the Local Government → Auditors, the Audit Commission → Audit Works at Local Government → Comprehensive Performance Assessment → Use of Resources Assessment

REVIEW II

The history of auditing at local government in England began in 1846 when the District Audit Service was founded to examine the accounts of local government districts in England and Wales. Local authorities were allowed to choose whether their accounts be audited by private auditors or the district auditors in 1972. In 1982 the auditing and examination of the overall management of local government was brought under the control of a single independent body, the AC. The extended audit began in 1992 when the AC was given the duty to direct local authorities to publish comparative indicators of performance annually. The AC then introduced several regimes of inspection frameworks to measure local authorities' performance. The extended work of AC's auditors will be discussed under the performance audit section later in this chapter.

Currently the external auditing of the public sector in England shares some similarity to the private sector but covers a wider range of audit work, due to a wider scope of accountability in the sector. The appointed auditor's duties would include the audit of financial statements, performance auditing, review of statements on corporate governance, review of standards of financial conduct and certification of grant claims. This section will comment briefly on these other duties of auditor but will focus on the performance auditing which is known as UoR assessment. The UoR assessment will be the focus of this study because it has become a major part of audit work at local councils.

3.4.1 Auditing the financial statements

Local authorities published accounts, the financial statements, are an essential means for accounting for its stewardship of the resources allocated and for its financial performance in the use of those resources (Audit Commission, 2005a). Therefore, local authorities have to establish systems of internal control to ensure the regularity and lawfulness of transactions, maintain proper accounting records and prepare financial statements that 'present fairly' its financial position, income and expenditure. A statement of internal control is also required to be published.

Auditors will audit the financial statements and opine whether the financial statements: (i) 'present fairly' of the financial position, expenditure and income of the local authority for the year audited; (ii) have been prepared properly in accordance with relevant legislation and

applicable accounting standards (Audit Commission, 2005a).[11] The auditors observe materiality in their work and will provide reasonable assurance that the financial statements:

(a) are free from material misstatement caused by fraud or other error;

(b) comply with statutory and other applicable requirements; and

(c) comply with all relevant requirements for accounting presentation and disclosure.

In performing the audit, auditors will examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by local authorities when preparing their financial statements (Audit Commission, 2005a). Auditors would also evaluate significant financial systems and internal financial controls before giving their opinion. Where the auditors identify any weaknesses in the systems and controls, they will inform the audited bodies. However, auditors are not to be expected to locate all weaknesses that may exist. Auditors review if the statement on internal control was presented according to relevant requirements and report if the statement does not or is misleading or inconsistent with other information. In accomplishing this task, the auditors will consider information about the audited body they gained through their work in the audited body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. However, the auditors are neither required to consider if the internal control statement covers all risks and controls, nor to form an opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

The auditor also has the right to report to the public on any matters of concern through a public interest report. The management of that local authority then has to respond to the public interest report publicly.

3.4.2 Auditing the arrangements for securing economy, efficiency and effectiveness in the UoR

Local authorities have to establish arrangements to secure economy, efficiency and effectiveness in its UoR, to ensure proper stewardship and governance, and to review the adequacy and effectiveness of the arrangements regularly (Audit Commission, 2005a). These form a key part of local authorities' internal control systems and comprise of:

(i) establishing strategic and operational objectives;

(ii) determining policy and making decisions;

(iii) ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;

(iv) ensuring compliance with established policies, procedures, laws and regulations;

(v) identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnership and joint working;

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[11] The auditors also would give opinion on the regularity of the audited body expenditure and income when necessary (for NHS bodies and local probation board in particular).

(vi)   ensuring compliance with the general duty of best value, where applicable; managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;

(vii)   monitoring and reviewing performance, including arrangements to ensure data quality; and

(viii) ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption.

(Audit Commission, 2005a, p. 6)

Local authorities are required to report on these arrangements in their annual 'statement on internal control'. Auditors have to satisfy themselves that the audited body has established proper arrangements to secure economy, efficiency and effectiveness in its UoR. To achieve that, the auditors would review and examine evidence relevant to the audited body's 'corporate performance and financial arrangements' summarised in (i) to (viii) above, and issue a report. The auditors also have responsibility to review and report on the local authorities' compliance with statutory requirements in respect of the preparation and publication of its best value performance plan (BVPP). The AC requires auditors to report their conclusion on the arrangements annually depending on the AC specified indicators. Auditors would also report if significant matters have come to the auditors attention that prevent them from concluding that the audited body has establish proper arrangements. However, auditors are not required to review whether all aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in its UoR are effective.

When planning for the assessment above, auditors would also consider and assess the relevant 'significant business risks' (Audit Commission, 2005a) and the arrangements local authorities have established to manage these risks. The relevant 'significant business risks' are the operational and financial risks significant to the achievement of local authorities' statutory functions and objectives, which apply to the local authority and are relevant to auditors responsibility under the Code of Audit Practice. Auditors will use their professional judgement and consideration of both the quantitative and qualitative aspects of the subject matter when assessing 'what is significant'. The auditors would review:

(i)   the relevance and significance of the potential business risks faced by all local authorities;

(ii)   other risks that apply specifically to individual local authorities;

(iii) the local authority's own assessment of the risks it faces; and

(iv) the arrangements put in place by the local authority to manage and address its risks.

(Audit Commission, 2005a, p. 7)

Besides reviewing (i) to (iv) above, the auditors would also consider:

(i)   evidence gained from previous audit work, including the response of the local authority to previous audit work;

(ii)   the AC measured performance results;

(iii) the work of other statutory inspectorates; and

(iv) relevant improvement needs, identified through discussion with the AC or other inspectorates.

When reviewing local authorities' arrangements for its UoR, auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy but not to question the merits of the local authorities' policies (Audit Commission, 2005a). When making recommendation to local authorities, auditors should avoid perception that they have any role in the decision-making arrangements of the local authority audited. Local authorities have their own responsibility to decide how to implement any recommendations made by their auditors. Again, the auditors are not expected to have identified every weaknesses or every opportunity for improvement and local authorities should consider auditors' conclusions and recommendations in their broader operational or other relevant context. Auditors' work is limited to reviewing the systems established by the local authority in collecting, recording and publishing the information according to AC guidelines. Auditors are neither required to report to local authorities on the accuracy of performance information they publish nor to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by local authorities.

Auditors' work in reviewing local authorities' arrangements to ensure their affairs are managed in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption. This does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected (Audit Commission, 2005a). The auditors do not have responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and should act promptly if they notify bases for suspicion. Auditors have specific powers and duties under the Audit Commission Act 1998 in terms of legality and, in local government, electors' rights. Local authorities have to bear the fees arising in connection with auditors' exercise of these powers and duties, including costs relating to the appointment of legal or other advisers to the auditors (Audit Commission, 2005a).

3.4.3 Reporting the results of audit works

In reporting their audit works, auditors will provide:

(a) an audit planning document;
(b) oral and/or written reports or memoranda to officers and, where appropriate, members on the results of, or matter arising from, specific aspects of auditors' work;
(c) a report to those charged with governance summarising the work of the auditor;
(d) an audit report, including auditor's opinion on the financial statements and a conclusion on whether the local authority has put in place proper arrangements for securing economy, efficiency and effectiveness in the UoR. For best value authorities, this conclusion incorporates the auditor's report on the audit of the BVPP;
(e) a certificate that the audit of the accounts has been completed in accordance with statutory requirements; and

(f) an annual audit letter or, for local authorities where the AC carries out inspections, information are to be reported to the AC in a specified format to enable it to prepare an annual audit and inspection letter to the local authority.

(Audit Commission, 2005a, p. 9)

Although annual audit letters and reports may be addressed to officers or members of the local authority, they are prepared for local authority use. Auditors do not have responsibilities to officers or members in their individual capacity (other than in the exercise of auditors' specific powers and duties pertaining to electors' rights in local government) or to third parties that choose to place reliance upon the reports from auditors. Auditors also issue other reports when necessary during the audit process:

(a) a report dealing with any matter that the auditor considers needs to be raised in the public interest under Section 8 of the Audit Commission Act;

(b) any recommendations under Section 11(3) of the Audit Commission Act; and

(c) information to be reported to the AC in a specified format to enable it to carry out any of its other functions, including assessment of performance at relevant bodies or to assist other bodies, such as the Healthcare Commission, the Commission for Social Care Inspection and the National Audit Office, in carrying out their functions.

(Audit Commission, 2005a, p. 10)

Auditors are allowed to be as helpful as possible when local authorities seek their views on the legality, accounting treatment or value for money (VFM) of a transaction before commenting upon it (Audit Commission, 2005a). However, the auditor is prohibited from giving a definite view in any case because they must not prejudice their independence by being involved in the decision-making processes of the local authority. They are not financial or legal advisers to the local authority and they may not act in any way that may refrain their ability to exercise the special power conferred upon them by statute. To respond to such request, auditors can only offer an indication of whether the information available to them (at the time of forming a view) could cause them to consider exercising the specific power conferred to them by statute. It is the local authority's responsibility to embark on any transaction. A response from auditors should not be taken as suggesting that the proposed transaction or course of action will be exempt from challenge in the future, whether by auditors or others entitled to raise objection to it.

In performing their duty, auditors have wide ranging rights of access to documents and information related to their audit (Audit Commission, 2005a). The rights apply to documents and information held by the audited local authority, its members and staff, as well as the local authority's partner and contractors, whether in the public, private or voluntary sectors. However, a strict restriction applies to the disclosure of information obtained in the course of the audit. The Freedom of Information Act 2000 does not apply to the AC's appointed auditors because they are not considered 'public authorities' under that legislation.

3.4.4 Certification of grant claims

Auditors may also be required to review the public and private bodies in receiving government grants (Audit Commission, 2005a). Grant-paying body requires the receiving body to provide evidence of both the amount spent and that the money has been used for the purposes for which it was granted. It is the local authorities' responsibility to ensure the completion, accuracy and completeness of grant claims and returns. The grant-paying body may also require independent examination as a condition of their acceptance of claims and returns and may ask the AC to make arrangements for auditor certification of claims and returns. The external auditors will provide the evidence through a certification they provide to accompany the claim for payment. It is up to the AC, prior to agreeing to make the certification arrangements with auditors, to consider what is appropriate, practically and professionally for the auditors to perform. The AC issued a new statement of responsibilities of auditors and of audited bodies in 2008 to include additional requirements in regard to electronic publication of local authorities' financial statements and to the audit of charitable funds (Audit Commission, 2008b).

3.5 Comprehensive Performance Assessment

REVIEW II

This section will explain the CPA framework before the next section considers the UoR assessment. This is necessary because UoR is a component of CPA and contributes towards local councils' CPA star rating. The CPA was introduced by the AC in 2002 as a tool that brings together the most significant elements of its audit and inspection work to enable a single judgement be formed about local authorities' performance and arrangements for improving services (Audit Commission, 2006a). When it was first introduced, the CPA framework only covered the single tier and county councils (Audit Commission, 2006b). Tailored frameworks for district councils and fire and rescue authorities were developed after 2002. Thus, currently there are three different CPA frameworks for the:

(a) single tier and county councils;

(b) district councils; and

(c) fire and rescue authority.

The AC noted that the application of the CPA approach to local authorities is to support the government's modernisation agenda (Audit Commission, 2006b). The CPA is part of a wider improvement agenda (set out in the Local Government White Paper) aiming to remove restrictions and requirement on planning, spending and decision-making and to provide new powers to innovate and improve (Audit Commission, 2002a):

The aim is to free up councils to innovate and deliver improvements in the quality of service and effective community leadership (p.2)

The AC asserted that the CPA helps local authorities that find it difficult to judge their own performance and deliver service improvements through:

- helping local authorities identify the actions they need to deliver improvement;
- ensuring that audit and inspection of local authorities are proportionate to performance;
- ensuring that the best local authorities receive significant reduction in audit and inspection;
- ensuring that external audit, inspection and regulation are properly co-ordinated and support improvement;
- streamlining other forms of external regulation;
- providing a baseline assessment for the allocation and negotiation of freedoms and flexibilities; and
- identifying local authorities where intervention is necessary to protect services to local community.

(Audit Commission, 2002a)

The CPA is also aimed at providing residents with a report card of how their local authority is performing overall compared to other local authorities in England (Audit Commission, 2006b). The AC claimed that the essence of CPA is that it draws on a range of information such as performance indicators, assessments of corporate capacity, audit and inspection reports, and stakeholder opinions to reach a single judgement about a local authority's performance. The AC further claimed that the strength of CPA is that it results in a clear public rating on a local authority's performance and provides the basis for a proportionate and risk-based approach to regulation.

The AC set out new *objectives for CPA in the medium to longer term* in 2003 (further refined in 2004) which guided its development work of CPA frameworks and assessment for 2005 onwards (Audit Commission, 2003a; 2004a). The objectives are:

(a) The judgement needs to better reflect the experience of the citizen or user of services in a locality;
(b) There needs to be full recognition within the CPA framework of performance against the 'shared priorities' for local government agreed by the Central Local Partnership;
(c) CPA needs to measure the influence and impact of a council in its locality – fulfilling its community leadership role with the Local Strategic Partnership when working with other partners, agencies and organisations to lever high-quality public services for all;
(d) CPA needs to measure performance against both national and local priorities, providing an appropriate balance between the two;
(e) CPA needs to be aligned with existing performance frameworks, including national and local public service agreements, and neighbourhood renewal floor targets;
(f) The impact of deprivation, diversity and spending on council performance needs to be renewed and further consideration given to how these issues are included in the framework;
(g) CPA needs to measure the cost effectiveness and value for money delivered by councils;
(h) CPA needs to reflect local political choice (added in 2004).

(Audit Commission, 2004a, p.4)

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The AC continuously reviewed its approach to CPA taking into account local authorities' duty to secure continuous improvement, lessons learned, and new developments (Audit Commission, 2006b). In general, the three frameworks above stand alone except for the outcome of the fire and rescue service assessment of county and other local authorities responsible for fire services which fed into their overall CPA category from 2006/07. CPA covers four assessment components, common in all the three frameworks:

(i)   corporate assessment;
(ii)   UoR assessment;
(iii)   service assessment; and
(iv)   direction of travel assessment.

(Audit Commission, 2006b, p. 4)

All four components contribute towards the overall CPA scores and ratings, but vary in terms of how the components are assessed and conducted in different local authorities depending on legal and national framework (Audit Commission, 2006b). This study focuses on single tier councils, county councils and district councils only, thus, the next section will explore the two CPA frameworks applicable for these local authorities.

3.5.1 CPA framework for the single tier and county councils

Single tier councils (the metropolitan borough councils, the metropolitan city councils, unitary authorities) and county councils share the same CPA framework. These local authorities were the first to have been assessed under the CPA regime, and the first CPA framework for these local authorities was introduced in 2002. Figure 17 shows the framework which was used in the assessment up to 2004.
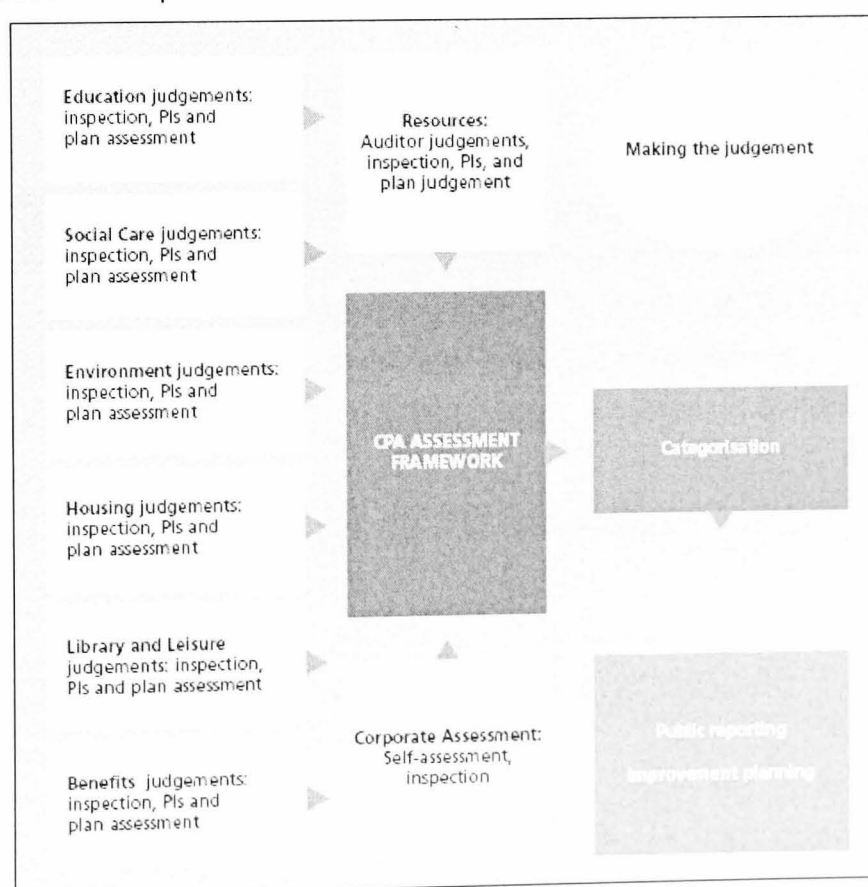
Figure 17: Single Tier and County Councils CPA Framework from 2002-2004
(Source: Audit Commission, 2002a)

In this initial framework, the CPA brings together judgements about:

- core service performance in education, social service, housing, environment, libraries and leisure and benefits;
- UoR including an audit judgement; and
- The local authority's ability measured through corporate assessment.

Each of the individual service judgements (6 boxes on the left in the diagram), the UoR judgement, and each of the themes scored within the corporate assessment were awarded a score of '1=lowest' to '4=highest'. The scores were then combined through the CPA assessment framework above to reach an overall category for the authority. Under this framework the UoR assessment is based on five themes of auditors' judgment. Services assessment includes aspects of education, social care, environment, housing, library and leisure and benefits which are judged by various inspectorates. Corporate assessments assess community leadership and corporate arrangement, and the capacity to support services in delivering improvements. The assessment is based on local authority's self assessment and the AC's Corporate Assessment Team. Under this CPA framework local councils were scored and ranked on a five-point scale of excellent, good, fair, weak and poor. After various consultation and discussion, an enhanced CPA framework was introduced for the 2005 assessment, called 'CPA –the harder test' to replace the 2002 version (Audit Commission, 2005b). Figure 18 shows the enhanced framework introduced in 2005.
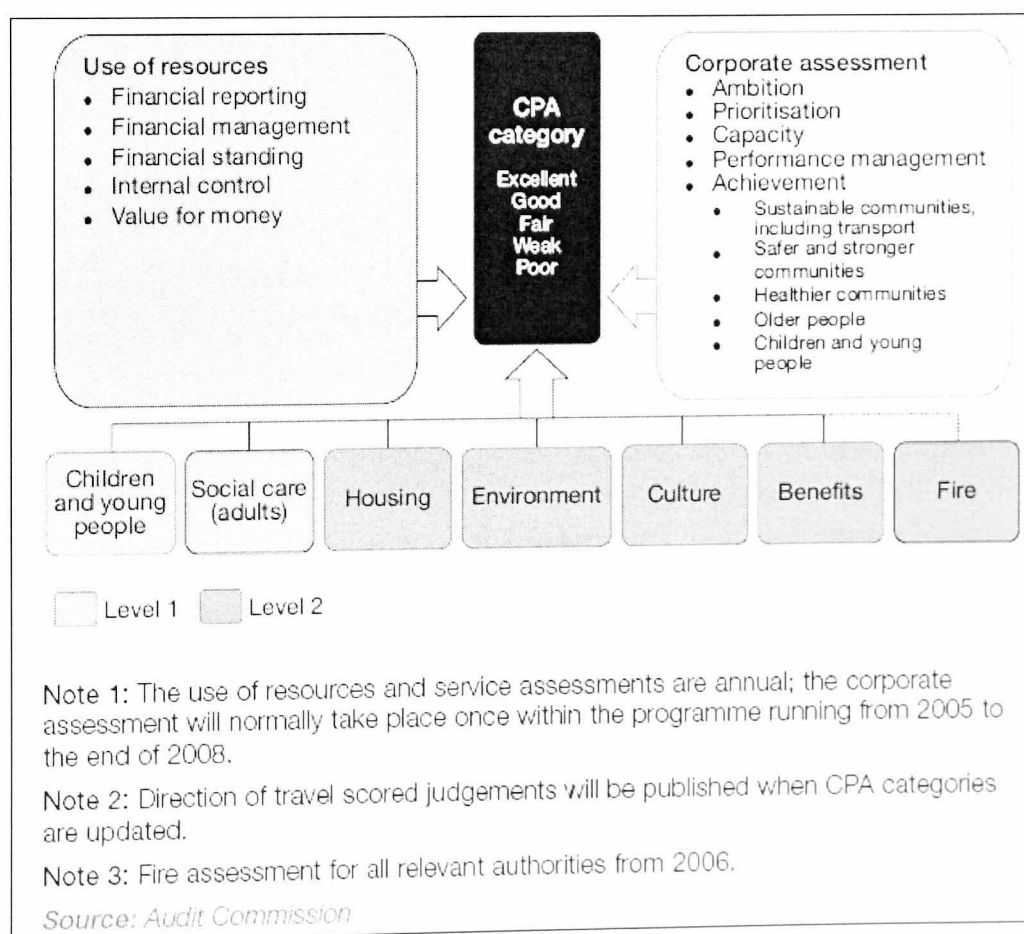
Figure 18: Single Tier and County Councils, *CPA –the harder test* Framework for 2005
(Source: Audit Commission, 2005b)

The 2005 framework maintains the three assessment components of corporate, services and UoR but introduces levels for components to show their relative importance towards the overall CPA rating. The UoR assessment was placed at 'level 1' showing its significance alongside services the councils provides for children and young people and social care for adults. 'Level 2' components are less significant. The rating is still on a five-point scale but renamed as star categories, with local authorities being ranked from 0 stars to 4 stars, 0 being the worst and 4, the best. The 'CPA –the harder test' also involves many changes to the way the UoR assessment is carried out. Significant changes to the CPA and the UoR assessment in 2005 has made the scores under 2005 framework not comparable to the results published for 2002 to 2004 assessment. The Commission claims that the changes are necessary to improve the measurement system, to boost continuous improvement and to avoid gaming among the subjects measured (Audit Commission, 2005b).

Further consultation from the public was invited during the first year the 'CPA-the harder test' was implemented and resulted in slight changes to the CPA framework in 2006 (Audit Commission, 2006b). Figure 19 shows the framework for the single tier and county councils assessment starting from 2006 which will be used until 2008.
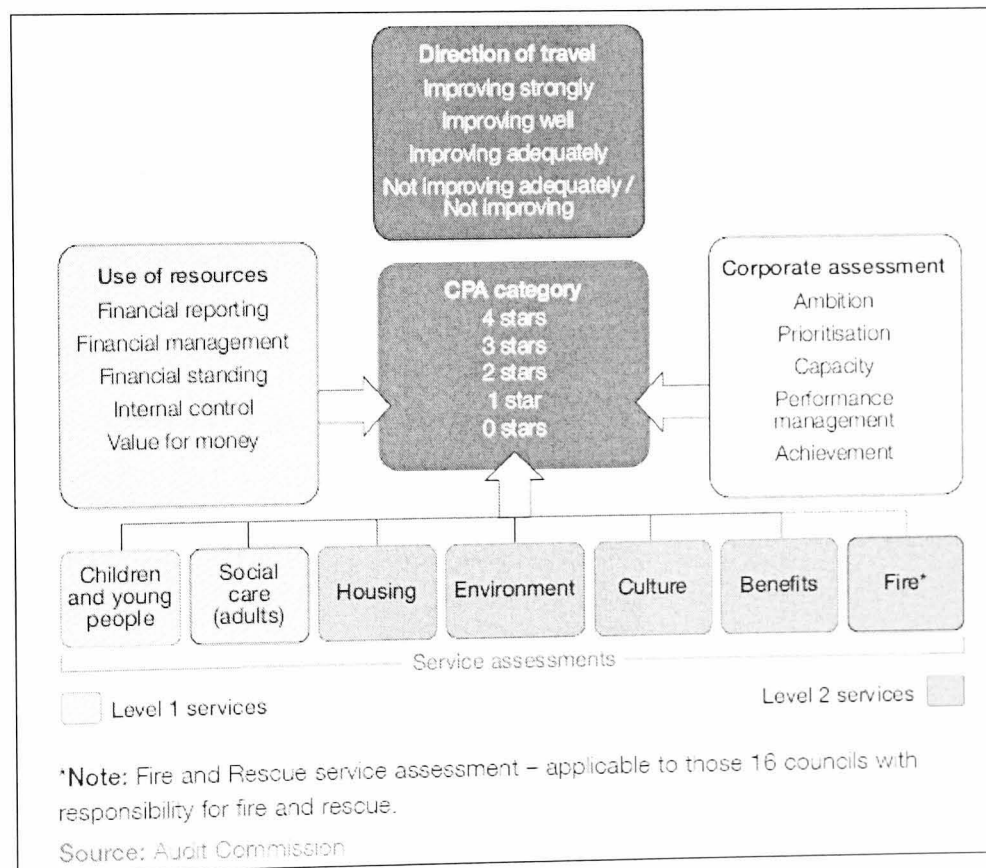
Figure 19: Single Tier and County Councils *CPA –the harder test* Framework for 2006-2008
(Source: Audit Commission, 2006b)

Under the 2006 framework, the three components and levels of assessments were maintained. A Direction of Travel (DoT) indicator was included in the framework as well as

clarifying the services assessment. The changes in the framework from 2005 to 2006 do not influence the significance of the UoR assessment. The Commission announced that the 2006 framework will be used until 2008 and acknowledged that the time needed by local councils to respond and cope with the changes (Audit Commission, 2006b).

3.5.2 CPA framework for the district councils

District councils were introduced to the CPA regime later than the single-tier and county councils. The first assessment was done on the 238 district councils between June 2003 and December 2004. Figure 20 shows the CPA framework used for the first district councils' assessment.
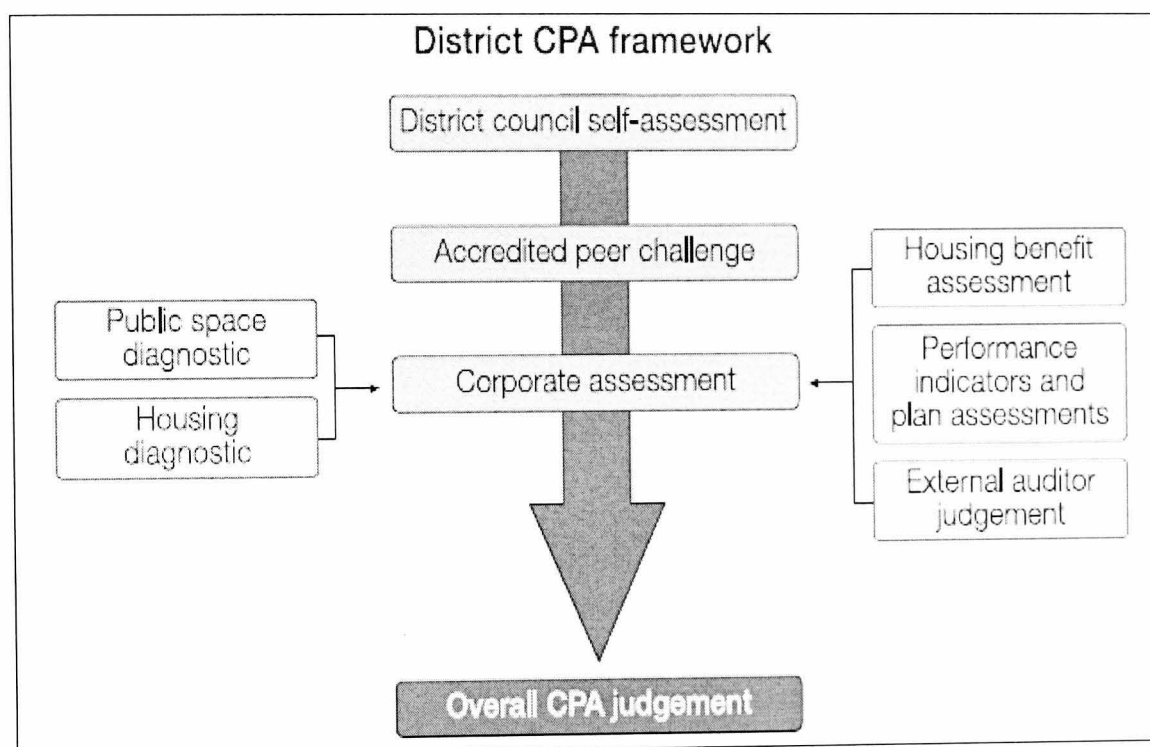
Figure 20: District Councils CPA Framework for Assessment Years of 2004-2005
(Source: Audit Commission, 2006a)

In the first round of district councils' CPA assessment, the methodology applied produced a single overall judgement including core service performance and council ability to improve (Audit Commission, 2006a). The assessment was implemented and reported on county-by-county basis and district councils' CPA category have not been updated on annual basis like the single tier and county councils because the district councils rely solely on a corporate assessment. The assessment components include a corporate assessment, diagnostic work in key service areas of housing and work space, an assessment done by the Benefit Fraud Inspectorate (BFI) and the appointed auditors' assessment. The first corporate assessments involved a self-assessment completed by the council followed by an accredited peer challenge. The corporate assessment for each district council would later be added an external auditor scored judgement, a housing benefit assessment (undertaken by the BFI) and two thematic diagnostic assessments to produce an overall CPA judgement. The self-assessed corporate assessment methodology involved four key questions and ten themes,

with each theme scored on a '1=weak' to '4=strong' scale. Table 11 details the corporate assessment framework. Three of the ten themes (investment, achievement of service quality and achievement of improvement) were given additional weighting. The weighted scores were added to produce a CPA category of excellent, good, fair, weak or poor.

Table 11: Corporate Assessment Framework

Key questions	Themes
1. What is the council trying to achieve?	1. Ambition 2. Prioritisation 3. Focus
2. How has the council set about delivering its priorities for improvement?	4. Capacity 5. Performance Management
3. What improvements has the council achieved/not achieved to date?	6. Achievement of service quality 7. Achievement of improvement 8. Investment
4. In light of what the council has learnt, what does it plan to do next?	9. Learning 10. Future plans

The AC published district councils' first assessment results as well as lessons learned from the assessment in September 2005 (Audit Commission, 2005c). Under the framework, auditor judgment on the UoR was used to influence corporate assessment before the CPA is rated. The CPA ratings were on the five-point scale measures of excellent to poor. Only overall CPA scores were published for the district councils' 2003/04 assessment. The AC also reported that the future framework for district councils' CPA would come into effect only in 2006 (Audit Commission, 2005c). The AC also notified its intention to consult on the development of a future CPA framework for district councils taking into account the findings obtained in the first round of the assessment. To allow for continued focus on improvement within district councils, the AC informed that it determined that the future CPA framework would:

(a) undertake an annual UoR assessment, including an explicit judgement on VFM, for all district councils from March 2006;

(b) make an annual statement on the DoT of each district council commencing in March 2006.

(Audit Commission, 2005c, p.30)

Subsequent to the publication of the first assessment results, the AC consulted widely on options for the district councils' CPA and proposals to improve the framework (Audit Commission, 2004a; 2006a). The consultation included regional events, regular discussion with a reference group of district councils and meetings with several stakeholders including government departments. Accordingly, in 2006, the Commission published another framework for the district councils from 2006 to March 2009. Figure 21 shows the framework introduced in 2006.
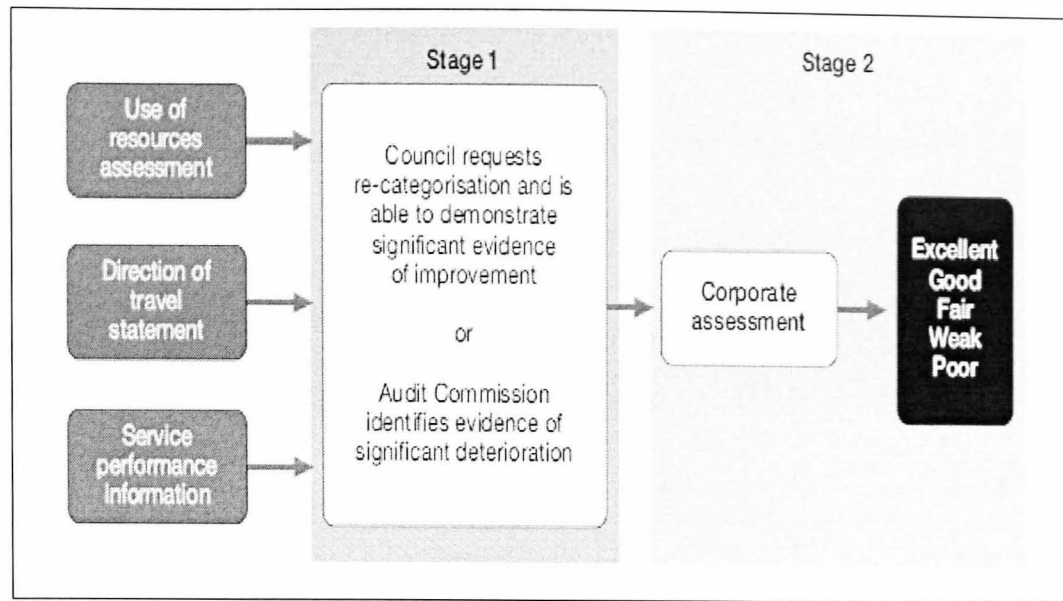
Figure 21: District Councils CPA Framework from 2006-2009
(Source: Audit Commission, 2006a)

The 2006 framework introduced a two-stage approach for re-categorisation on the CPA rating for the district councils (Audit Commission, 2006a). Under this framework, the UoR assessment, the DoT statement and services performance information are used at 'stage 1' to assess the district councils' request for re-categorisation of their previous year's CPA rating. The CPA rating is maintained on the five-point scale of excellent to poor but the AC decides whether or not the district councils will receive an annual UoR assessment and DoT statement. Starting from this framework, the district councils' will receive the same assessment for UoR as single tier and county councils. The AC allowed an extension of several months for the district councils compared to the single tier and county council during the 2006 assessment because the district councils were new to the UoR assessment (Audit Commission, 2006a). Regardless of the different contribution which the UoR had on the overall CPA between these two types of local councils, the assessment performed by auditors is not different.

3.6 Use of Resources Assessment

REVIEW II

This section discusses the UoR assessment. The assessment began at the same time CPA was introduced in 2002 as part of the CPA assessment framework for single-tier and county councils. The assessment is done by the same external auditor appointed by the AC to audit a council's annual accounts and runs concurrently with the audits of annual accounts. To achieve the objective of measuring how well local councils manage their financial resources, the UoR assessment is divided into five main categories of auditors' judgments, called

themes.[12] Every theme is elaborated into several areas for auditors' to gather evidence in making their judgment. Table 12 shows the five themes auditors used to judge use of resources in 2002-2004 and the areas where auditors search for evidence to assess the themes.

Table 12: Auditors' Judgment for Use of Resources Assessment in 2002-2004

Themes of Auditor Judgment	Areas for evidences
Financial standing	Setting a balanced budget Setting a capital program Financial monitoring and reporting Meeting financial targets Financial reserves
Systems of internal control	Monitoring of financial systems An adequate internal audit function is maintained Risk identification and management
Standards of financial conduct and the prevention and detection of fraud and corruption	Ethical framework Governance arrangements Treasury management (added in 2003 and 2004) Prevention and detection of fraud and corruption
Financial statements	Timeliness Quality Supporting records
Legality of significant financial transactions	Roles and responsibility Consideration of legality of significant financial transactions New legislation

(Source: Adapted from www.audit-commission.gov.uk/reports/CPA-AUDITOR-JUDGEMENT, 2002, 2003 and 2004)

The five themes used were: (i) financial standing; (ii) systems of internal control; (iii) standards of financial conduct and the prevention and detection of fraud and corruption; (iv) financial statements; and (v) legality of significant financial transactions. The auditors judge each area of evidence and use their judgement to arrive at each theme's score using a scale of 1 to 4, with 1 being the lowest and 4 the highest. The score given for each theme is then used to determine the overall UoR's score, also based on the same scale of 1 to 4. During these years, 2002-2004, only the single tier and county councils were subject to these themes of UoR assessment. When the AC introduced its 'CPA –the harder test' in 2005, there were significant changes to the five themes and the way in which the UoR's score was assessed (Audit Commission, 2005b). The five themes have been replaced by new categories. The Commission imposed a total revamp on the assessment system and the new themes were the latest structure developed based on various consultations, discussion and feedbacks on their previous assessment work and results. Figure 21 illustrates this by comparing the themes used to assess UoR introduced in 2005 alongside the themes used for the earlier years, 2002-2004.

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[12] www.audit-commission.gov.uk/localgovernment/useofresources/whatisuor
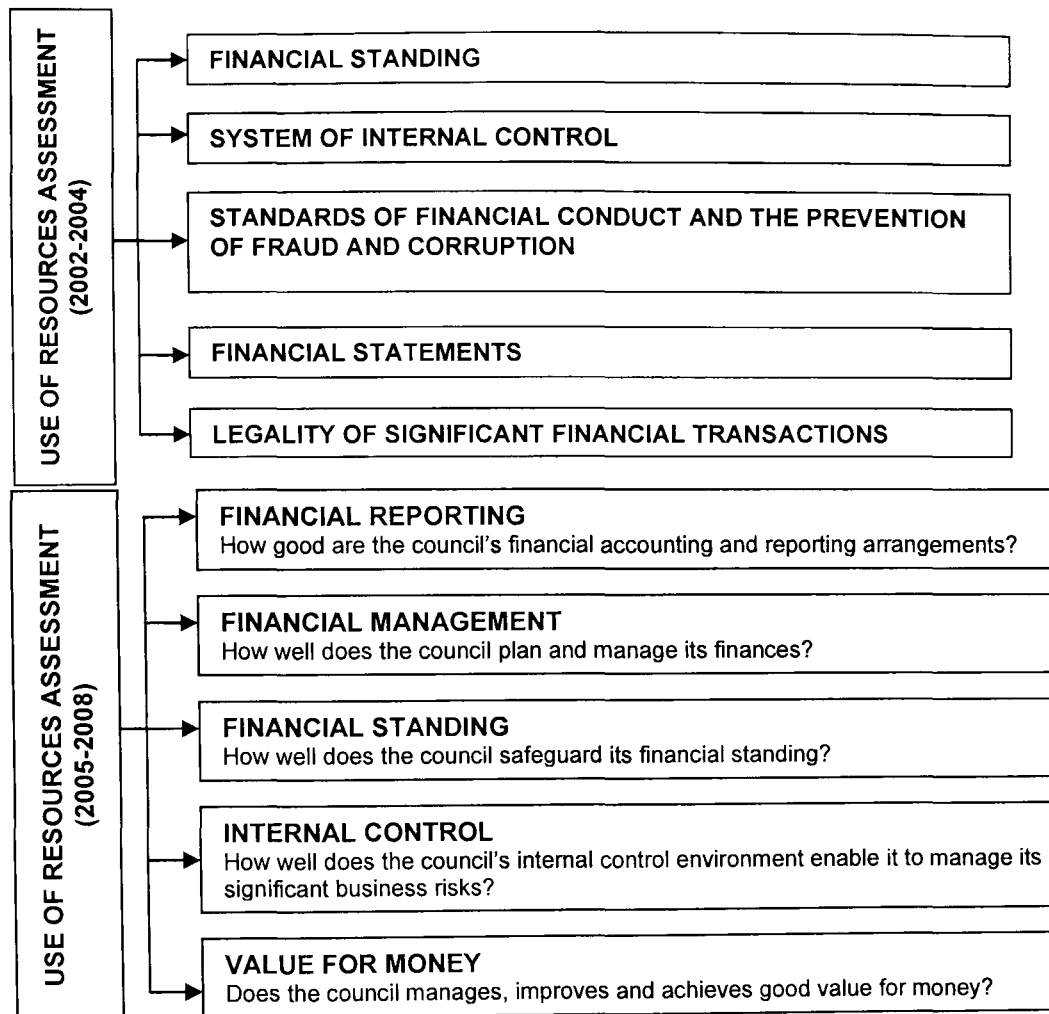
Figure 22: Use of Resources Themes: 2002 and 2005 Frameworks
(Source: Adapted from Audit Commission's publications on guidance for assessment)

The UoR assessment from 2005 onwards involves five themes of financial reporting, financial management, financial standing, internal control and value for money (Audit Commission, 2005b). Value for money was added in the 2005 assessment, while financial standing, internal control, financial statements, standards of financial conduct and the prevention and detection of fraud and corruption and legality of financial transactions have been enhanced or re-categorised to create the new themes. The arrangement of the themes in the figure is according to the AC's order of listing and does not reflect any transformation from old to new themes' title. Every theme comes with a specific question showing the extent of its coverage.

Financial reporting looks at the strength of a local authority's financial accounting and reporting arrangements. Financial management looks at how well the local authority plans and manages its finance. Financial standing measures how well the local authority safeguards its financial standing and internal control measures how well the local authority's internal control environment enables it to manage its significant business risks. Value for money (VFM) assesses whether the local authority manages, improves and achieves good value for money.

The auditor judgments used to arrive at theme scores have also been replaced with detailed performance indicators called Key Lines of Enquiry (KLoE). The AC claimed that the

enhanced system would better help local authorities to improve their management and the services they provide (Audit Commission, 2005b). Various literatures argue that the regime introduced by the AC has increased centralised control and contradicts the initial government's objectives of comprehensive assessment and reporting which is to provide greater freedom for local authorities (Hood et. al, 1998; Hoggett, 1996; Boyne et al, 2002; Kelly, 2003). The AC produces detailed guidelines for auditors on what to look for when assessing local authorities' UoR. Every UoR theme has several KLoEs. Evidence as to how local authorities should perform is provided for every KLoE. Table 11 through to Table 15 show the KLoEs and areas where criteria (other themes) and descriptors (value for money) are sets out for all the 2005 UoR themes.

Table 13: Key Lines of Enquiry – Financial Reporting

1. FINANCIAL REPORTING	
How good are the council's financial accounting and reporting arrangements?	
Key lines of enquiry:	
1.1	The council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers
	Audit Focus- evidence:
	a. the council accounts are compiled in accordance with statutory and professional reporting standards
	b. the council's accounts are supported by comprehensive working papers
	c. the accounts and supporting working papers are prepared and approved in accordance with relevant timetables
1.2	The council promotes external accountability
	Audit Focus- evidence:
	a. the council publishes its accounts in accordance with statutory requirements
	b. the council publishes summary accounts/annual report in a way that is accessible to the public

(Source: Audit Commission, 2005d; 2006c)

Financial Reporting (FR) theme comes with two KLoEs looking at whether: (i) the local authority produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers and (ii) the local authority promotes external accountability. Evidence is gathered around the local authority's accounting process and publication.

Table 14: Key Lines of Enquiry – Financial Management

2. FINANCIAL MANAGEMENT	
How well does the council plan and manage its finances?	
Key lines of enquiry:	
2.1	The council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities
	Audit Focus- evidence:
	The council's corporate business plan (that sets out its aims and objectives) is linked to its financial planning and management
	The council's budget and capital programme are based on robust medium-term financial projections and risk assessments
2.2	The council manages performance against budgets
	Audit Focus- evidence:
	The council has arrangements in place for monitoring against budgets, taking corrective action where appropriate, and reporting to senior officers and members
	The council's financial information systems meets users' needs
2.3	The council manages its asset base
	Audit Focus- evidence:
	The council has a capital strategy and fixed asset management plan
	The council reports to members on asset management

(Source: Audit Commission, 2005d; 2006c)

Financial Management (FM) theme comes with three KLoEs looking at whether: (i) the local authority's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priority, (ii) the local authority manages performance against budgets and (iii) the local authority manages its asset base.

Table 15: Key Lines of Enquiry – Financial Standing

3. FINANCIAL STANDING	
How well does the council safeguard its financial standing?	
Key lines of enquiry:	
3.1	The council manages its spending within available resources
	Audit Focus- evidence:
	The council is financially sound
	The council manages its levels of reserves and balances
	current spending plans match available resources

(Source: Audit Commission, 2005d; 2006c)

Financial Standing (FS) theme comes with one KLoE looking at whether the local authority manages its spending within available resources.

Table 16: Key Lines of Enquiry – Internal Control

4. INTERNAL CONTROL	
How well does the council's internal control environment enable it to manage its significant business risks?	
Key lines of enquiry:	
4.1	The council manages its significant business risks
	Audit Focus- evidence:
	The council has a risk management process in place
	The risk management system covers partnership working
4.2	The council has arrangements in place to maintain a sound system of internal control
	Audit Focus- evidence:
	The council reviews and reports on its system of internal control
	The council has an audit committee or equivalent and an internal audit function
4.3	The council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business
	Audit Focus- evidence:
	The council has adopted codes of conduct and monitors compliance
	The council's arrangements to prevent and detect fraud and corruption are effective

(Source: Audit Commission, 2005d; 2006c)

The Internal Control (IC) theme comes with three KLoEs looking at whether: (i) the local authority manages its significant business risks, (ii) the local authority has arrangements in place to maintain a sound system of internal control and (iii) the local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.

Table 17: Key Lines of Enquiry – Value For Money

5. VALUE FOR MONEY	
Key lines of enquiry:	
5.1	The council currently achieves good value for money
	Audit Focus- evidence:
	Costs compare well with others allowing for external factors
	Costs are commensurate with service delivery, performance and outcomes achieved
	Costs reflect policy decisions
5.2	The council manages and improves value for money
	Audit Focus- evidence:
	The council monitors and reviews value for money
	The council has improved value for money and achieved efficiency gains (limited to the last three years)
	Procurement and other spending decisions take account of full long-term costs

(Source: Audit Commission, 2005d; 2006c)

The Value for Money (VFM) theme comes with two KLoEs looking at whether: (i) the local authority currently achieves good value for money and (ii) the local authority manages and improves value for money.

The evidence for every KLoE is then elaborated in detail for each level of score to be awarded (Audit Commission 2005d; 2006c; 2006d; 2007a). The elaborations are called criteria for other themes and descriptors for the VFM theme. Criteria/descriptors are detailed explanations and descriptions on what a local authority should do to be awarded a score of

'1' to '4'. The criteria for each of the five themes were spread accordingly on three levels: criteria at level 2 to criteria at level 4 (Appendix 6 shows an example of how the criteria/descriptors are described). Level 1 criterion was not tabled as local authorities which have not met all the criteria at level 2 will be given a '1'. Some of the KLoE's criteria tabulated at all levels are highlighted in bold indicating the criteria as a 'must-have' to obtain that particular level. The AC has set level 2 criteria as a basic requirement from local authorities. Local authorities not meeting the basic requirement stated at level 2 will be scored 1. Local authorities will move to higher level of 3 or 4 if they fulfil requirements set at the higher level.

The KLoE, evidence and criteria/descriptor for the UoR assessment clarifies what is required from local authorities. This should help local authorities to work towards the criteria required to obtain better scores. The themes, KLoE and its evidence have not gone through any changes since it was introduced in 2005. However, from one year to another, the AC has reflected on the experiences of their auditors, the local authorities and various consultations they had through a revised version of criteria/descriptors for the KLoE evidence. For the assessment done in 2006, the changes made on the criteria/descriptors were only to clarify the description written for the 2005 assessment. The AC made the criteria/descriptors harder in the 2007 and 2008 assessments. This is claimed to promote continuous improvement effort among local councils. The changes made on the criteria/descriptors include movement from previously higher levels to lower levels, making compulsory the existing non-compulsory features or adding new criteria/descriptors to tighten the assessment.

When other themes are assessed based on the evidence and criteria sets out for KLoEs, auditors will use local authorities' self assessment as a basis and descriptors for KLoE evidence to help them judge the VFM theme. VFM is defined as the relationship between economy, efficiency and effectiveness or 'value-chain' (Audit Commission, 2006d). The AC provided guidance called 'VFM Profiler Tool' to assist local authorities in completing the self assessment for VFM (http://vfm.audit-commission.gov.uk). The AC has not set any VFM theme descriptors in bold to indicate must-have because of the subjective nature of VFM theme (Audit Commission 2005d; 2006c; 2006d; 2007a). The auditors responsible for assessing VFm theme would search for the 'best fit' descriptors in the levels set by the AC that represent the local authority's state of performance.

The AC claimed the new KLoEs are more strategic and better than the previously less flexible criteria (Audit Commission, 2005b). The additional details introduced in KLoEs may help reduce the subjectivity of auditor's judgments. This may help to overcome the issue raised Boyne and Enticott (2004) on the lack of differences they found between authorities achieving the lowest two of 'Poor' and 'Weak' and the highest two of 'Good' and 'Excellent' rankings. However the effectiveness and efficiency of these new indicators are still subject to

further investigation. Enhanced assessment for the UoR themes requires additional work from auditors. Extra work means greater coverage of auditing and additional cost for local authorities. Local authorities also need to prepare themselves to be audited on more aspects than before, which means more resources for compliance.

The theme's score is determined after the auditor has decided the position of a local authority's on the KLoE levels. A four-point scale similar to the 2002 assessment framework applies but the Commission clarifies the four-point scale used in rating both the themes and overall use of resources with its 2005 document on the assessment (Audit Commission, 2006d; 2007a). Listed below is the four-point scale and what is meant by each level in the scale:

4 =   well above minimum requirements – performing strongly;

3 =   consistently above minimum requirements – performing well;

2 =   at only minimum requirements – adequate performance; and

1 =   below minimum requirements – inadequate performance.

A local authority which does not achieve the minimum requirement reflecting inadequate performance will get a 1 while a local authority achieving well above minimum requirements reflecting strong performance will get the highest rating, 4. The five themes' scores will then be used to score the overall UoR. Table 18 shows the rules used to determine the overall UoR score from its themes' scores.

Table 18: Scoring Rules for Use of Resources Assessment

Scores on Use of resources themes	Overall score
At least two 4s; No score below 3 on any headings	4
At least three 3s, no score below 2	3
At least three 2s	2
Any other combination	1

(Source: Audit Commission's publication, 2006d; 2007a)

As a continuous improvement effort, the AC consulted and conducted discussion to enhance the assessment they performed (Audit Commission, 2005b). They also received a suggestion to include making VFM as a compulsory element to achieve a higher UoR score. However, the suggestion was not followed in any of the AC's assessment because the AC perceived that inclusion of VFM as compulsory was not feasible at this stage. The AC also claimed that the UoR assessment assesses local councils' management and leadership abilities and not the resources of the local council. The AC has also addressed the proposal to provide different arrangements for deprivation issues.

The CPA will be replaced with Comprehensive Area Assessment (CAA) in 2009. The changes will be major where services assessment will be done on area-based instead of organisational based approach. However, the UoR assessment will still be done on

individual organisations although there would be significant changes to the assessment, such as inclusion of a sustainable approach in its assessment framework which requires economic, social and environmental issues to be addressed together.

3.6.1 The use of resources assessment process

The UoR is an annual assessment for local authorities. Some local authorities are assessed by the district auditors, but the AC provides training for all appointed auditors before they start their assessment work to help them familiarise and understand the work requirement. The AC also provided guidance documents for auditors to approach the assessment. Local councils are expected to consult their auditors and the AC on matters relevant to the assessment. Before the 'relationship managers' function was stopped in 2007, the AC expected a local authority to work closely with their relationship manager and auditor to help them learn from the assessment process and improve their council's performance and services they provide.

The AC has a committee to develop the assessment rules and regulations. The rules and regulations are based on the Code of Audit Practice and the statutes. The AC invites responses from the public and local authorities prior to introducing any new rules and regulations. After feedback and consultations with various parties, the AC will produce new rules. The new rules will then be pilot tested on several local authorities before finalisation. After the AC is satisfied, the new rules will be issued for local authorities' application and published on its website for public information. This process applies to all aspect of CPA and UoR assessment. For UoR assessment the AC issues KLoE and guidance documents to help both local authorities and auditors approach the assessment (for example: Audit Commission 2006d; 2007a). The guidance documents are normally issued every year to guide assessment for that year. The guidance provides information on the timelines of the assessment, how auditors should judge and score the performance, and processes to reach a final score.

There are other guides on the responsibilities of auditors and audited bodies and 'notable practices' published on the Commission's website. The responsibility guide presents detail explanation; mostly elaboration of the Code, on what the auditors and local councils should do (Audit Commission, 2005a). The 'notable practices' are case studies drawn from local councils which have been successful and improved their performance, normally those scoring 4 for overall UoR or achieving level 4 in the themes assessed. The 'notable practices' are collected and published to help local councils learn from the success of others. The timelines for UoR assessment in 2007 as published in the AC's guidance document is extracted and presented in Table 19 below.

Table 19: Timelines for Assessment

Date	Events
February 2006	Commission consulted on proposals for the 2007 KLOE and published final changes in the CPA-the harder test framework consultation document in April 2006.
November	KLOE published on the Commission's website with summary of changes to the assessment
February 2007	Use of resources guidance for councils and VFM self-assessment pro-forma available on Commission's website
April to October	Auditors undertake assessment fieldwork for all councils.
By the end of April	Updated VFM profile tool available on the Commission's website
	Councils to provide update to previous year's VFM self-assessment – date to be agreed with their auditor
From 19 November	Auditors discuss their theme judgements with councils while the Commission's national quality control is ongoing.
10 December	Commission notifies councils of their overall score, following completion of national quality control.
21 December	Deadline for councils to request a review of their overall score
January 2008	Commission publishes overall councils' use of resources scores and auditor theme judgments on its website
March	Relationship managers issue their Audit and Inspection Letters to councils

(Source: Audit Commission, 2007a, p. 11)

Table 19 indicates that the AC published its KLoE for the 2007 UoR assessment a few months ahead of the assessment process. The KLoE is published with a summary of changes from the previous year's assessment. The AC then published its UoR assessment guide in February 2007 and uploaded the VFM pro-forma on their website for local authorities to begin their preparation. In 2007, auditors started assessment fieldwork in April until October 2007. Auditors use the self assessment pro-forma for VFM before they score the theme with local authorities being required to update the pro-forma before the end of April. In gathering evidence for their judgement, auditors will use various documents. The AC provided guidance on the documents from which auditors would draw evidence for every UoR themes (Audit Commission, 2007a). This helps local authorities to prepare the necessary documents and inform the auditors on what document they should expect. Table 20 shows the documents from which evidence will be drawn for assessment in 2007.

Table 20: Source of Evidence for Auditors based in themes

Themes	Evidence
Financial reporting	2006/07 financial statements, summary financial information and annual report
Financial management	2007/08 budget and updated medium term financial strategy issued prior to March 2007
Financial standing	Financial position consistent with audited out-turn for 2006/07 and reserves policies in place for 2007/08 budget
Internal control	Statement on internal control for 2006/07
Value for money	Costs and performance indicators relating to 2006/07 and earlier years

(Source: Audit Commission, 2007a)

Table 20 shows that the financial reporting theme depends a lot on local authorities' financial statements and that the financial management theme concentrates on budget and financial strategy documents. The financial standing theme looks at the financial positions consistent with *'audited out-turn'* and reserves policies stated in local authorities' budget. The internal control theme focuses on local authorities' *'statement on internal control'* and the VFM theme would look at costs and performance indicators. The VFM theme assessment is different from other themes' in that the auditor would use a VFM self assessment pro-forma. The AC claimed that the assessment for VFM theme complements local authorities' processes in producing their *'annual efficiency statements'.* Auditors will review arrangements related to the annual efficiency statements to assess the VFM theme. The auditor will decide the local authorities' achievement level of the KLoE criteria based on the evidence they have collected. The AC also provides guidance on how the auditor should score the local authorities' KLOE. Table 21 shows the scoring rules.

Table 21: Rules for KLOE levels for themes other than VFM

Performance	Requirement
Level 1	Not meeting criteria at level 2
Level 2	All criteria at level 2 met
Level 3	All level 2 arrangements embedded and working effectively with clear outcomes All bold criteria at level 3 met and embedded
Level 4	All bold criteria for levels 2 and 3 embedded Display innovation or best practice that can be shared with other councils *Level 4 criteria are indicative only of level 4 performance. They have been kept to a minimum and are not shown in bold type. This is to avoid the criteria for the top level of performance being prescriptive and limiting.

(Source: Adapted from Audit Commission 2006d; 2007d)

The AC claimed that the criteria at level 2 are the basic requirements of a local authority (Audit Commission, 2005b). That would indicate that achieving level 2 is simple for local authorities which comply with government requirements and maintain sufficient documentation of their work. However, moving from level 2 to 3 needs some innovation and hard work, while level 4 is not easy to achieve, reflected in the fact that not many local authorities scored 4 on any of the use of resources' theme.[13] The scores evidence that the majority of local authorities achieved level 2, reflecting their ability to meet all the basic requirements.

Some local authorities experienced improvement in their published scores in 2005 to 2006 and 2007. A few local authorities also experienced declines in their scores. To improve from level 1 to 2 could be easy for local authorities that do not have many problems with their organisation and few dropped from level 2 to level 1. However, moving from level 2 to higher levels could be more difficult relatively. Dropping from level 4 to the lower levels may occur when local authorities do not make any improvement from the previous year. This happens because the AC has moved several criteria which previously were at higher levels to lower

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[13] www.audit-commission.gov.uk/localgovernment/useofresources/uorscores

levels to make the assessment tougher. Local authorities at borderlines in any levels would appear to have a higher risk of dropping their score in a future year.

The scores allocated by auditors are subject to two levels of quality control, at the AC's regional management area and national levels (2007 Interview Data). Auditors would meet at the regional level to moderate the scores they allocate for local authorities before they submit the scores to the AC. At this point, auditors discuss the suitability of scores they have awarded to avoid some local authorities being rated more strictly than others. Auditors also discuss with each other when they come across cases for which they found it difficult to allocate scores. After moderation at the regional level, auditors will submit the scores electronically, using the *Electronic Data Coding (EDC)* system, to the AC's head office in London by 19th November (based on the timelines for 2007 assessment).

The scores submitted to the AC's head office will then go through a second round of quality control, at national level, moderating the scores for all regions in England. Auditors can now discuss their themes' judgments with councils while the Commission's national quality control is progressing. The Commission uses statistical analysis and tests *(Interview data: the AC manager, 2007)* to check for consistency throughout England. The AC cannot change the scores allocated by auditors, they only observe the consistency and check if the auditors have done proper work and quality control at regional level. In the event of outliers in the scoring data or extraordinary cases, the AC panel at national level would investigate and refer the cases back to auditors who provided the scores *(Interview data: the AC manager, 2007)*. Auditors will then have to explain their scoring accordingly to the AC.

After the national quality control has been completed, the scores will be notified to local authorities through the AC's website. Local authorities are allowed 10 days to respond and request the AC to review the score if they are not satisfied with it. Local authorities are only allowed to ask for a review on their overall theme's scores, not on the KLoEs. Less than 10 percent of local authorities appeal for the review and very few succeeded *(Interview data: the AC manager, 2007)*. The numbers of local authorities appealing were also declined in 2006 and 2007 compared to 2005. Several factors could have discouraged them from appealing. One of the reasons is the nature of the assessment being held annually does not present a significant benefit to obtain a better score through appeal and review. By the time their score was reviewed and changed, the next assessment cycle will have begun. It may be better for the local authority to discuss with their auditors and relationship managers to help them target the area of improvement for the future instead of requesting a review. After considering the review request, which would take around a month, the AC will publish the final scores for the UoR and its themes. The AC (previously done by the relationship managers) will then prepare and issue their Audit and Inspection Letter to councils.

3.7 Summary

The review in this chapter covers the background and technical environment of this study which mainly answers the first research question: what are the functions of external auditors for local authorities in England; and opens the window to link with further research questions. Information on the local authorities, the AC, the auditors, the assessment frameworks, procedures and timelines were discussed. This information is necessary to answer the rest of the research questions, especially to inform the discussion of findings from the published performance measures in Chapter 5. The extent of the rules and regulations surrounding the assessment regimes of CPA, and in particular the UoR assessment, support Hood et al's argument about the increase in intensity and formality of the regulation, as well as number of people involved in inspection. The author's arguments on the attempts by the regulatory body to standardise the assessment criteria and on the attempts to influence and change auditees' behaviour is evidenced by the detailed rules of the KLoEs. Power's argument about the explosion of auditing also prevailed from the review in this chapter, in which audit is used beyond its traditional functions of certification to cover the assessment of the use of resources and to provide accountability of the organization and its officers. Power (2003) suggests that the explosion effect can be seen in both an institutional and behavioural context. In local government, the explosion effect in terms of institutional context is prevalent in the formation of the AC to take over several inspectorates' functions and to coordinate the remaining inspectorates. In terms of the behavioural context, the AC presents a list of detailed indicators to measure performance. Thus, the monitoring and assessment, using specific indicators, would have an impact on the auditees' behaviour. Furthermore, the attempt to make everything auditable and quantifiable is complex and might work in opposition to what is intended by NPM. Undoubtedly these would have an impact on the auditees and their behaviour which warrants further investigation.

The next chapter discusses the research methodology adopted in this study to achieve the aims and objectives set out earlier.

4 RESEARCH METHODOLOGY

Introduction	→	Literature Review	→	Methodology	→	Findings & Discussion	→	Conclusion
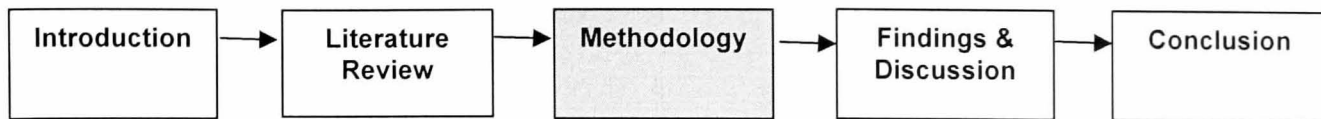
4.1 Introduction

This chapter links the literature reviews presented in the previous two chapters and the research findings presented in Chapter 5 and Chapter 6. The research questions, aim and objectives will be recalled before associating them with the research design and the methodological position followed in this study. According to Oliver (2004)

> the term 'methodology' is used in a general sense to refer to both theoretical and practical aspects of the conduct of the research (p.121)

Several theoretical and practical issues are discussed such as research types, philosophical paradigms, methods, and approaches. The position chosen in each of these topics is justified in the corresponding section. Afterwards, the procedures used for data collection is explained, which comprises of several stages reflecting the sequence of research questions set to uncover the issues. This is followed by examining aspects of the main data collection, such as sample, access, checklist guide, and interview timings, duration, place and transcriptions. Finally, the methods of analysis chosen and how the credibility of the research was assured, are discussed.

4.2 Research Question, Aim and Objectives

Research Question	HOW DOES THE EXTERNAL AUDITING FUNCTION OF LOCAL AUTHORITIES IN ENGLAND AFFECT LOCAL AUTHORITIES AS AUDITEES?
Aim	*To discover how the external auditing performed at local authorities in England affect local authorities as recipients of the service.*
Objectives (Specific research questions)	1. *What are the functions of external auditors for local authorities in England?* 2. *How do the local authorities perform based on their auditor's assessment (certification audit and Use of Resources assessment)?* 3. *Do the auditees view the published scores as reflecting improvement and position of the local authorities?* 4. *What factors contribute to the variations in local authorities' performance?* 5. *How do the auditees view the external audit process and the performance assessments?*

To achieve the main aim, five specific questions were generated. The five specific questions guided the sequence of exploration, in which the first question is explored before moving to the second and so on. A case study design is considered appropriate, which allows detailed and intensive analysis of external audit within a single region, Yorkshire and The Humber, where each local authority in the region constitute a separate case (Bryman and Bell, 2003). Multiple cases also allows for cross comparison. In terms of the method of data collection, a mixed method approach is chosen since one method of analysis alone will not be adequate to meet all the research objectives, the first analysis is then embedded in the attempt to discover the next, which makes this study explanatory in nature (Creswell and Clark, 2007). The first objective is approached through analysing archival government documents, presented in Chapter 3 of this thesis. The findings were then embedded into the second objective, for which the auditors' reports and scores for various years were collected and analysed to discover how local authorities are performing, the findings will be presented in Chapter 5. These findings are then embedded and used in generating structured questions for interviews with the directors of finance (and the like) at local authorities to answer research objectives three to five. These findings will be presented in Chapter 6 of this thesis. The section that follows will explain in detail the methodological positions, research design and strategy adopted in this study.

4.3 Methodological Position

Methodology is considered the "overall approach to the research process" (Hussey and Hussey, 1997, p. 54). Similarly, Easterby-Smith et al (2002) defined it as the "combination of techniques used to enquire into a specific situation" (p.31). This section will examine the approach and methodological position of this study.

	METHODOLOGY		
Types	Pure Research	Applied Research	Action Research
Paradigms	Post-positivism	Constructivism	Advocacy	Pragmatism
Ontology	Singular reality	Multiple realities	Political reality	Singular and Multiple realities
Epistemology	Distance	Closeness	Collaboration	Practicality
Axiology	Unbiased	Biased	Biased & Negotiated	Multiple Stances
Logic	Deductive	Inductive	Participatory	Combining
Rhetoric	Formal style	Informal style	Advocacy & Change	Formal/informal

Figure 23: Methodological Position
(Source: Adapted from Creswell and Clark, 2007)

Figure 23 describes the many research approaches that follow the choice of paradigm to exhibit the methodological position of this study. The shaded boxes represent what this study adopts as its philosophy and stances.

4.3.1 Type of Research

It is important to classify research as pure, applied or action research. The choice between these research types is dependent on the "outcomes that are assumed to emerge" (Easterby-Smith et al, 2002, p.8). The authors distinguished the three types of research according to its aims.

(1) The aim of *pure research* is to develop theory with or without practical implications. In short, there are three forms of pure research: discovery, when a new idea emerges from the research; invention, when a new idea is created to a particular problem; and reflection which consists of applying an existing idea into a different context. (2) *Applied research* is concerned with the solution of a particular problem, often involving clients from organisations. Thus, the most important focus in applied research is the application of the theory to the practice. (3) The main idea of *action research* is that in order to understand a particular phenomenon the researcher should try to change it; an active involvement existing between the researcher and the process being researched (Thompson and Perry, 2004; Hussey and Hussey, 1997).

Based on these arguments, and according to the specific aims of this study, *applied research* was considered most appropriate in order to generate theory which can be applied in practice. According to Hart (1998) the key idea of this type of research is "to take theoretical insights and apply these in real-world situations" (p.46), which is precisely the purpose of this research. This research aims to contribute (theoretically) to literatures on local government auditing, yet not forgetting its practical nature of considering what else could be done to improve the current assessment process. Findings will be shared with local authorities after this study is concluded and could be used by the AC to help them utilise the process effectively. Having decided to employ applied research, the research philosophy adopted in this study will be discussed. This is followed by a discussion on the research paradigms, stating which one was chosen and why.

4.3.2 Research Philosophy or Paradigm

All research needs a foundation for its enquiry, and enquirers need to be aware of the implicit worldviews they bring to their studies and the choice of the philosophical paradigm is a vital point in conducting a research project. According to Saunders, Lewis and Thornhill (2000) the "research philosophy depends on the way you think about the development of knowledge" (p.84). Basically, there are two major paradigms in the research process (verification of theoretical propositions): positivism and anti-positivism. Positivist research is empirical and quantitative and often said to be inappropriate in relation to social research (Brymen, 1993;

Anderson, 1990; Chadwick et al. 1984; Allison, 1993). According to positivism, the objective world exists independently of any perspectives of the researchers. Therefore, researchers must disclose the objective facts. Anti-positive philosophies, which adopt qualitative approaches are widely used in social research and known as interpretivism, ethnography, phenomenology and others. From these two basic philosophies, several other philosophies emerged. Creswell and Clark (2007) outlined four philosophies or paradigms, which they described as worldview, normally used as foundations in research; post-positivism, constructivism, critical theory, and pragmatism, described in Table 22.

Table 22: Four Worldviews Used in Research, related approaches and nature

Worldviews	Approach	Nature
Post-positivism	Quantitative	Determination Reductionism Empirical observation and measurement Theory verification
Constructivism	Qualitative	Understanding Multiple participants meanings Social and historical construction Theory generation
Critical Theory (Advocacy & Participatory)	Qualitative	Political Empowerment and issue oriented Collaborative Change oriented
Pragmatism	Mixed methods	Consequences of actions Problem centred Pluralistic Real-world practice oriented

(Source: Compiled from Creswell and Clark, 2007))

Post-positivism which emerged after the end of World War II, is a modification of positivism (Rapoport 1970; Fox, 1990). Post-positivist admits that reality is difficult to be perfectly understood and researcher can only approach the truth with rigorous data collection and analysis. Post-positivism is often associated with quantitative approaches (Cresswell and Clark, 2007). Researchers' claim for knowledge is based on: a. determinism or cause and effect thinking; b. reductionism, narrowing and focusing on selected variables to inter-relate; c. detailed observation and measures of variables; and, d. testing of theories that are continually refined. Post-positivist is widely influential within qualitative research (Glaser & Strauss, 1967; Strauss & Corbin, 1998).

Constructivism covers a wide span of positions from those indistinguishable by post-positivist approaches to relativist positions. On reality, constructivist advocate multiple, socially constructed realities which "when known more fully, tend to produce diverging inquiry" (Lincoln and Guba, 1986, p.75). Realities cannot be studied in pieces or as variables but only in a whole and in context. Constructivism rejected the traditional image of the split relationship between knower and known, researcher and subject. Lincoln (1990) wrote that the ontology of constructivism is that:

> ...reality is a social, multiple construction ... the aim of constructivist science is to create idiographic knowledge, usually expressed in the form of pattern theories ... expressed as working hypotheses, or temporary, time-and-place-bound knowledge. (p. 77)

Constructivism is associated with qualitative approaches where understanding or meaning of a phenomenon is formed through participants and their subjective view. Research is shaped from individual perspectives to broad patterns and finally to theory (Cresswell and Clark, 2007). Critical theory originated in the Frankfurt School, Germany, during the pre-war years (Danforth, 1995). Critical theory included a wider definition of qualitative research aimed to generate empowerment or emancipatory social change (Harvey, 1990, Popkewitz, 1990). Critical ethnography, feminist research and participatory action research are related to this paradigm. Critical theory admits researcher bias due to historical, political, societal, ethnic or gender conditions is unavoidable in the approach to understand reality. The researcher has to be related to social values while keeping in mind that the purpose of their research is to realise the social values. The advocacy and participatory paradigms also refer to critical theory because it is influenced by political concerns. This approach is more often associated with qualitative approaches than quantitative (Cresswell and Clark, 2007). This paradigm is characterized by a view of the need to improve our society and those in it, often addressing issues such as empowerment, marginalization, hegemony, patriarchy, and researchers collaborate with individuals experiencing injustices. In the end this type of researcher plans for social groups to be changed for the better, so that individuals feel less marginalized.

Buchanan and Brymen (2007, p. 486) argues that organizational research boundaries has widened significantly since its foundation, has developed a multi-paradigmatic profile, and has been extraordinarily inventive with data collection methods. The authors wrote that the 1980s paradigm wars have turn into a "paradigm soup". Therefore the organisational research nowadays uses diverse social sciences paradigms. Pluralism in methodology has increased popularity of mixed-methods research which according to Teddlie and Tashakkori (2003) has made the relationship between epistemology and method problematical, weakening the confidence in and preoccupation of those links. Thus, method is increasingly located in the context of wider and more fluid intellectual currents, discouraging rigid adherence to epistemological positions, encouraging a more **pragmatic** 'do whatever is necessary' or 'pick and choose approach to choices of methods. However, Meyer (1991, p. 218) suggested that a "burst of innovation" and a "new pluralism in methodology" in organization science had not affected data collection methods.

Cresswell and Clark (2007) describe this "paradigm soup" as pragmatism which normally is associated with a mixed-methods research. Pragmatism focuses on the results of research, and main importance of the research questions rather than the methods it adopts. Therefore this paradigm adopts multiple methods of data collection to inform the problem being studied. Pragmatism is chosen for my study because it attempts to discover issues underpinning the external auditing process imposed on local government, requires carefully designed questions to extract answers, and multiple methods of data collection.

The aim of this research is not directly to test any hypotheses, but the information collected will be developed into themes to analyse for regularities. Quantitative performance measures will be analysed to develop themes and direction for further investigation. Interviewees will be presented with structured statements for them to mark prior to face-to-face interview; the marked responses will be tested for frequencies. During the face-to-face interviews, the interviewees are allowed to explain their responses in detail to provide greater understanding of the themes' developed through the quantitative analysis. The face-to-face interviews also enhance the validity of research findings because they verify and support the quantitative analysis.

Consequently, besides using some form of quantitative measures and analysis to develop its themes, this research primarily focuses on how interviewees "perceive, think and feel" (Saunders et al, 2000, p.86), aiming to understand their perceptions on the external audit processes imposed on them. Thus pragmatism is the philosophical paradigm underlying this research. The key point was *to explore the process and its outcomes* through some quantitative measures which then will lead to *exploring meanings, experiences and insights* that the auditees give to the research topic. This pragmatic approach combines both quantitative and qualitative methods, adopts single and multiple realities and address practicality when it comes to data collection (the researcher collects data by "what works" to address research question). This paradigm is expected to contribute to meaningful exploration and discovery of the issues concerned.

All the four paradigms have common elements but take different stances on these elements. Each paradigm represents different ontological and epistemological positions. These different stances influence how researchers conduct and report their inquiries. According to Thompson and Perry (2004) researchers should work with the paradigm which is consistent with their "ultimate presumptions" (p.403). Tashakkori and Teddlie (1998) summarised the four important paradigms used in social and behavioural sciences, and their assumptions, as in Table 23 below:

Table 23: Comparison of Four Important Paradigms Used in Social and Behavioral Sciences

Assumptions	Paradigms			
	Positivism	**Post-positivism**	**Pragmatism**	**Constructivism**
Ontology	Naïve realism	Critical or transcendental realism	Accept external reality. Choose explanations that best produce desired outcomes	Relativism
Epistemology	Objective point of view. Knower and known are Dualism	Modified dualism. Findings probably Objectively "true"	Both objective and subjective points of view	Subjective point of view. Knower and Known are inseparable
Methodology	Quantitative	Primarily Quantitative	Quantitative + Qualitative	Qualitative
Logic	Deductive	Primarily Deductive	Deductive + Inductive	Inductive
Axiology	Enquiry is value-free	Enquiry involves values, but they may be controlled	Values play a large role in interpreting results	Enquiry is value bound
Causal Linkages	Real causes temporally precedent to or simultaneous with effects	There are some lawful, reasonably stable relationships among social phenomena. These may be known imperfectly. Causes are identifiable in a probabilistic sense that changes over time	There may be causal relationships, but we will never be able to pin them down	All entities simultaneously shaping each other. It's impossible to distinguish causes from effects

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

The section that follows will discuss on the assumptions and choice of this study.

4.3.3 Ontology and Epistemology

Ontological and epistemological positions describe the researcher's beliefs about the world which is fundamental when choosing the research methodology. Traditionally, ontology and epistemology are considered the twin terms of methodology (Clough and Nutbrown, 2002, p.30). Ontology is about the assumptions people make on the nature of reality. Epistemology is about the general set of assumptions that people make on the best ways of searching into the reality of the world, in other words epistemology is about the relationship between the researcher and the subject being researched (Oliver, 2004; Thompson and Perry, 2004; Bryman and Bell, 2003; Easterby-Smith et al, 2002).

Cassell (2001) emphasised the epistemological and ontological principles within the objectivist and subjectivist paradigms (see Table 24). The objectivist paradigm relates to positivism, and the subjectivist paradigm to post-positivism (Hussey and Hussey, 1997).

Table 24: Epistemological and Ontological principles within the Objectivist and Subjectivist paradigms

	Objectivist	Subjectivist
Epistemology	Social scientific approaches are similar to those of the natural sciences. Researchers seek to explain and predict by searching for regularities and causal relationships	Unlike natural sciences there is no privileged vantage point that leads to understanding. We all interpret and make sense of the world in different ways. All the researcher can do is report their interpretations without any claim to privilege.
Ontology	The social world exists externally to us. It is made up of hard tangible structures and exists before we enter on it.	There is no real structure to the world. It does not exist independently of us. Names for things are just artificial creations.

(Source: Compiled from Cassell, 2001)

In this study a combination of both subjectivist/objectivist epistemology and ontology were followed, resulting in a mixed methods approach. Themes of enquiries were established based on secondary data and documentation through regularities and causal relationship. The themes are then used to develop a set of structured interview questions where respondents marked their choice of answer. The marked answers are analysed statistically to check on regularities and frequencies. Interviewees are allowed to freely express their own interpretations, meanings, feelings and experiences on the research topic in structured-interviews method. The main purpose of this research is to explore perceptions and differences among local authorities as auditees; how these interviewees perceive the assessment process; to understand their reasons and experiences in the field. In this study, findings emerged only from secondary data analysis and interviewees' insights.

4.3.4 Axiology, Logic and Rhetoric

Axiology is a stance that explains the role of values in the research undertaken (Cresswell and Clark, 2007). Pragmatism adopts multiple stances where the researcher combines both biased and unbiased perspectives. In this study, the discussion of findings will include both biased and unbiased values relevant to pragmatism. Discussion of quantitative measures will be based on scored performance, which is potentially unbiased, but discussion on interviewees' views will include biased elements based on the interviewees' perceptions and the researcher's interpretation.

Logic is another important methodological selection between a deductive and an inductive approach. This choice is related to the philosophical paradigm (Creswell and Clark, 2007). The deductive methodology is where researchers test a-priory theory, and is usually associated to positivism. The inductive methodology requires researchers to take participants' views and build up to patterns, theories, and generalizations, and is related to anti-positivist and constructivist paradigm (Perry, 1998). The pragmatism paradigm chosen for this research, allows for both inductive and deductive approach where the researcher collects both quantitative and qualitative data and mixes them to arrive at meaningful discussion and conclusions. However, in this study, only an inductive approach is adopted where data were

used to identify patterns and generate understandings which were then explored to gain deeper knowledge on the area, without the intention of testing any hypothesis or theory.

It is an advantage that I started this study without experience on the UK local government external audit process. This allows an open mind discovery based on available data, interpreting as an outsider. Although I have some expectation in regard to the usefulness of external audit from basic study of external audit, being an outsider or new to the process has help me to present findings pursuing an inductive approach. Consequently adopting *embedded mixed-methods analysis* (discussed in Section 4.4.2) brought immense advantages to this research, particularly in answering each research question and in discussing important and unexpected findings. Furthermore, an inductive approach follows the argument of Saunders et al (2000), who stated that when researchers are:

> particularly interested in understanding why something is happening rather than being able to describe what is happening, it may be more appropriate to adopt the inductive approach than the deductive (p.89).

Nevertheless, choosing an inductive approach does not mean that some ideas from prior literature were not used, especially in generating the checklist guide used for the semi-structured interviews. Researchers may have some ideas generated from theory as a starting point, and then adopt an inductive approach, aiming to gain new and rich insights from the qualitative data (Bryman and Bell, 2003; Saunders et al, 2000). This idea was followed while designing the structured questionnaires. Statements to guide the interviews in this study were based on the literature review, in the consequent gaps found, and in the professional context of this research. However, in the data collection and analysis, an open mind to interviewees' answers and perceptions was kept from the first to the last interview, entirely following an inductive approach, the checklist being seen as a guide only. The research approach chosen was hence inductive, letting interviewees explain freely why they have certain perceptions on some aspects of the external audit process.

Rhetoric

Paradigm also determines how research is communicated to its audience, what kind of language researchers would us. Pragmatism, the paradigms adopted in this study, allows researchers to employ formal or informal styles of writing, or may employ both. Therefore throughout this study, a mixture of styles will be employed when reporting findings because the researcher deals with different data set in different stages of data collection.

4.4 Research Design

The previous section justifies the paradigm positioned for this study. This section will describe in detail the research design adopted for this study suitable with the assumed paradigm. Research designs are procedures for collecting, analyzing, interpreting and reporting data in a research study. Research design is formed based on the literature review and gaps found, combined with researcher's interest in the research topic. The choice of research design reflects decisions about the priority being given to a range of dimensions of the research process. The design selected for this study is mixed-method analysis of case studies. Consequently, a description of the case study as unit of analysis will be done in Section 4.4.1 followed by discussion of the mixed-methods approach to data collection and analysis in Section 4.4.2.

4.4.1 Case Study

The choice of case study method was made during the early stages of this study. According to Keating (1995, p. 66):

> ...case study research is certainly one means for accounting researchers to develop an intimate, contextual sensitive knowledge of actual management accounting practices. (p. 66)

Case study methods offer scope for understanding the nature of accounting practice: in terms of the techniques, procedures, systems and techniques used, and the way they are used (Ryan et al., 2002). As suggested by Scapens (1990), understanding how accounting information is used in day-to-day organisational activities can enrich the detailed study of accounting practices. Jensen and Rodgers (2001, p. 237-239) describe several types of case study:

i. *snapshot case studies*- a detailed and objective study of one research entity at one point in time which involve hypothesis-testing by comparing across sub-entities;
ii. *longitudinal case studies*- a quantitative or qualitative study of one research entity at multiple time points;
iii. *pre-post case studies*- study of research entity at two time points separated by a critical event that impacted case study observations significantly;
iv. *patchwork case studies*- a set of multiple case studies of the same research entity, using snapshot, longitudinal, and/or pre-post designs to provide a rather overall view of the dynamic of the research subject; and
v. *comparative case studies*- a set of multiple case studies of multiple research entities for the purpose of cross-unit comparison where both qualitative and quantitative comparisons are generally made.

Comparative case studies is the one described this research where 22 local authorities are the focus of this study, and they will be compared quantitatively and qualitatively to develop an understanding of the research problem. Case study research requires a detailed analysis of a particular case using multiple evidences, which sometimes is called triangulation of data. Yin (1984) suggests six primary sources of evidence common for case study research; documentation, archival records, interviews, direct observation, participant observation, and physical artefacts. Using multiple data sources is important for the

reliability of a case study though not all the six sources are essential in every case (Stake, 1995; Yin, 1984). Using multiple data sources provides strong support for the answer to the research question. In this study, documentation, archival records and interviews are the three sources of data collection. These three data sources were used as complementary to enhance the understanding of the research question.

The relevance of each case study is more important than its ability to generalize. In terms of external validity or generalization, this study is not meant to generalise for the whole of England although all 288 local authorities went through same external audit processes. The nature of a case study is that it may not be representative of the entire population. However, some researchers do claim a degree of theoretical generalizability because studying in detailed enables concepts to be generated (Bryman and Bell, 2007). Therefore it can be concluded that the case study method is an intensive analysis which can help in theory generation (inductive) as well as theory testing (deductive) (Bryman and Bell, 2007).

Selection of cases should also be theory driven; either through cross theoretic case selection or as suggested by Yin (1984) a researcher could select cases not only when they are critical (to reveal relationships which cannot be studied by other means) but also when they are revelatory or unusual (to throw light on extreme cases). Case study research is not confined to the study of a single case; studying multiple cases has becoming increasingly common in business and management research. A multiple-case study is an extension of the case study method, which focus on the cases and their unique contexts (Bryman and Bell, 2007). The multiple cases chosen for this study are all 22 local authorities in Yorkshire and The Humber region. The local authorities vary significantly in terms of performance and size. The region comprises all types of local authorities prevalent in England; from two-tier (district and county) to single-tier (metropolitan city councils and unitary authorities).

4.4.2 Mixed Method

As mentioned in the Section 4.3, adopting a pragmatic approach resulted in a mixed-methods research design. Therefore, this section will discuss the mixed-methods research design chosen for undertaking this study. The debate on paradigm for mix-method research started during the 1970s and 1980s, mainly on whether qualitative and quantitative data could be combined (Smith, 1983). Some researchers argued that a mixed method was not compatible because the paradigms will need to be combined (Smith, 1983). However, Bryman (1988) challenges the argument and suggests that a clear connection existed between the two traditions. Rossman and Wilson (1985) called qualitative researchers who avoid mixed methods research because of the incompatibility of 'mixing' paradigms as purists; and others as: (i) situationalists – who adapt their method to situation; (ii) pragmatists – who believe that multiple paradigms can be used to address research problem. Pragmatism has been recognised as the best philosophical foundation for mixed

methods research, although reconciling paradigms is still an apparent issue (Tashakkori & Teddlie, 2003a, Chapter 2).

Mixed-method approach allows researchers to combine qualitative and quantitative data to achieve research aims, which according to Meyer (1991) addressed the criticism directed towards using only qualitative or quantitative to conduct organizational research. Cassell and Symon (1994) pointed out that the adoption of qualitative approaches alone may be risky although qualitative methods are considered the most suitable when carrying out research in organisations, either to understand individual or group experiences at work. Several authors argue that qualitative methods allow deeper data collection than with quantitative methods. For example Goulding (2005) emphasised the need for more qualitative research "in order to gain valid insights, develop theory and aid effective decision making" (p. 295).

Saunders et al (2000) emphasise that the choice of the philosophical paradigm and corresponding method depends mainly on the research questions to be answered. The key point is that *both* quantitative and qualitative methods are very important and useful *depending* on the research aims. Considering the nature of my study, using quantitative or qualitative methods alone seems insufficient to uncover the issues of interest. A mixed-method is considered to be most appropriate to answer the research question, aim and objectives. According to Creswell and Clark (2007):

> Mixed methods research is a research design with philosophical assumptions as well as methods of enquiry. As a methodology, it involves philosophical assumptions that guide the direction of the collection and analysis of data and the mixture of qualitative and quantitative approaches in many phases in the research process. As a method, it focuses on collecting, analyzing, and mixing both quantitative and qualitative data in a single study or series of study. Its central premise is that the use of quantitative and qualitative approaches in combination provides a better understanding of research problems than either approach alone.
>
> (Creswell and Clark, 2007, p. 5)

Bryman and Bell (2007) classifies the study by Kanter (1977) as a 'mixed methods case study' where her research focuses on a single organization. She conducted questionnaire surveys on 250 sales workers and managers, structured interviews with 20 selected workers and content analysis of performance appraisals. These are similarly reflected in my study which involves a single region; where data gathering comprises of multiple units in the region. All the units represent a single case study of their own where I repeatedly conducted same data collection for each of them. The data gathering then meets the multiple methods approach; involves several stages of collection ranging from collating documentation on the processes involved, collating and analysing published performance measurement, designing and administering structured interview questions and visiting and interviewing the director of finance (or equivalent position) from relevant local authorities.

Creswell and Clark (2007) list several situations where mixed-method is most preferred to address a research problem; (i) when only one approach is inadequate by itself to address the research problem, (ii) when a quantitative design can be enhanced by qualitative data, or vice versa, (iii) when a need exists to explain the quantitative results, (iv) a need exist to first explore qualitatively. They also mentioned that a researcher might choose a mixed method not necessarily because of only one reason above, the reasons could be multiple.

Given the nature of my research problem, almost all the reasons above apply to this study, in particular where one approach alone is inadequate by itself to address the research problem. The external audit process is relatively new to me, requiring extensive review of available documentation, as well as interviewing relevant parties involved with designing and administering the system. This fits with reason four above where a qualitative review is done initially to permit an understanding of the variables, construct, taxonomies, and theories to test, as well as the identification of items and scales to help develop a quantitative instrument (Creswell and Clark, 2007). Reviewing the processes led to the discovery that the AC had published performance indicators and scored performance for each local authority. Having these scored numbers for several years permitted a quantitative analysis to check for trends, irregularities or issues related to certain local authorities. Manipulating the figures allowed deeper understanding of the research environment and assisted in generating structured questions, while providing a list of quantitative information.

The quantified information above then needed further explanation which only interviews with relevant individuals could provide. At this stage, interviews were used to explain the initial review of documents and procedures as well as the quantitative analysis of scored performance. Prior to each interview, the interviewees were required to answer a set of structured questions. This informed the interviewees of the context of this study and provided a set of responses which helped the researcher prepare for each interview. Understanding individual specific situations of a local authority is necessary as well as a general understanding of the process in order to identify which aspects should be explored in further detail during each interview.

There are four major types of mixed-method research design: (i) Triangulation Design; (ii) Embedded Design; (iii) Explanatory Design; and (iv) Exploratory Design. Creswell and Clark (2007) described the process of data collection that I adopted as an Embedded Design mixed method, in which one data set (published scores) provides a supportive, secondary role in a study based primarily on the other data type (interviews). The Embedded Design mixes different data sets at the design level, with one type of data being embedded within a methodology framed by the other data type (Caracelli and Greene, 1997). The use of multiple units of analyses for case research is also recognised as embedded case studies by Yin (1994). Figure 24 below illustrates the mixed-method design adopted in this study.
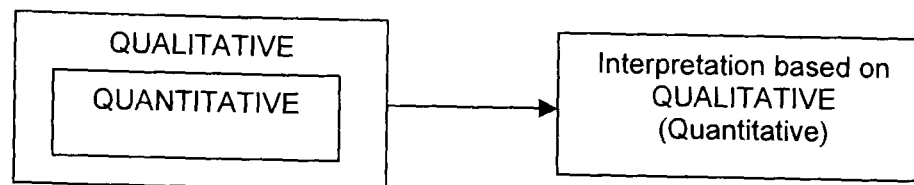
Figure 24: Embedded Design Mixed Methods
(Source: Creswell and Clark, 2007, p. 68)

Qualitative data can be embedded in quantitative research or vice versa. In my research, quantitative data is embedded within a qualitative methodology, which is also common with phenomenology design (Creswell and Clark, 2007). In this design, the collection of both data applies but one of the data type (quantitative) plays a supplemental role within the overall design. Hence quantitative data plays a supportive role to answer the main research question of this study.

An Embedded Design can also involve either a one-phase or two-phase approach for the embedded data and the quantitative and qualitative data are used to answer different research questions within the study (Hanson et al., 2005). The first qualitative review of archival documents in my study was to answer the first research question: *what are the functions of external auditors for local authorities in England.* This review was then used to consider the quantitative analysis of scored performance published annually by the AC to answer the second research question: *how do the local authorities perform based on their auditor's assessment (certification audit and Use of Resources assessment).* Both reviews and analysis were then embedded in designing the final stage of data collection which is the interviews to answer the remaining three research questions. In the final phase, a quantitative analysis of structured interviews was used to supplement qualitative discussion based on interviews.

A study will be more manageable, simpler to implement and describe if the choice of design is carefully selected. A choice of research design may be influenced by availability of expertise (in qualitative or quantitative), resources, the length of time to complete the study, and funding to support research expenses (Creswell and Clark, 2007). The choice of design also relates to three decisions in the research process; (i) the timing of data usage for the study, (ii) the relative weight of the quantitative and qualitative approaches and (iii) the mixing decisions (Creswell and Clark, 2007).

The timing decision refers to the time the data sets are collected and the order which the data sets are used. The weighting decision is the relative importance of the quantitative and qualitative methods adopted. The mixing decision is a choice of how the quantitative and qualitative data should be mixed. The mixing decision is important to avoid the different data sets becoming a plain collection of multiple methods. The choice of paradigm normally determines the priority of data set, post-positivist paradigm calls for quantitative priority, while

anti-positivist paradigm calls for qualitative and pragmatism calls for a combination of both either equal or unequal depending on the research questions (Morse, 1991). The strength of which data set is best suited to address the study's goals and purpose should also be the basis of weighting (Morgan, 1998).

In terms of timing, researchers can choose concurrent or sequential timing. In this study, the data collection was done concurrently in two distinct phases:

Phase 1:   Documentations were reviewed, quantitative data was collected and analyzed, open-ended interviews were conducted;

Phase 2:   Structured interviews were conducted, marked responses to the structured statements were analysed quantitatively, and used to support a qualitative review of the interview responses.

In terms of weighting or priority, both data types can have equal priority or one has greater priority over the other. In this study, during Phase 1, a qualitative review and quantitative data was used to build on the foundation. The information was then confirmed through open-ended interviews to strengthen understanding. In Phase 2, a quantitative instrument was used to organize the interview sessions and to support the discussion of qualitative responses obtained. Therefore, I could say that qualitative data was given more priority and was used when explaining the findings in Chapter 6 of this thesis and that was achieved with the foundation built in Phase 1.

In terms of mixing the data, a researcher could merge the data set, embed the data at the design level or connect from data analysis to data collection. For this study, the quantitative data is embedded in the design of qualitative. As Creswell and Clark (2007) suggests, researchers can use secondary, embedded dataset to make their interpretations by:

(i)   combining the two datasets together in the concurrent approach; and

(ii)   keeping them separate in the sequential approach.

Phase 1 and Phase 2 of the data collection above describe how the data were mixed. Detail explanation on the two phases will be explained the next sections, Section 4.5 and 4.6. Consequently, having justified all the methodological positions and designs of this study, the discussion will now focus on data collection.

4.5 Data Collection – Phase 1

Choosing the pragmatic paradigm links to adopting singular and multiple realities, maintaining a distance between researcher and researched based on practicality, uses both unbiased and biased values for findings, combining deductive and inductive approaches and employing a formal reporting style for some parts of the findings and an informal style for others. The frameworks then guided the design for this study, a mixed-method case-study. Having chosen the frameworks and design, the researcher can then strategise the approach for data collection. Research strategy is the "general plan of how you will go about answering the research question(s) you have set" (Saunders et al, 2000, p. 92). Data to answer my research questions involved both quantitative and qualitative types from secondary and primary sources. Thus, *methods,* defined as the means used to focus, collect and analyse data (Hussey and Hussey, 1997), will be discussed in the following sections.

Phase 1 data collection involved reviewing the published government and the AC documentations, collection and analyses of measured performance and open-ended interviews to triangulate the secondary data.

| Archival Documents | → | Published Scores | → | Open Ended Interviews |

Data Collection Phase 1

Figure 25: Data Collection Phase 1

Figure 25 illustrates the three main elements of data collection in this Phase 1, and discussion for this section will flow accordingly to the diagram.

4.5.1 Archival documents

| Archival Documents | → | Published Scores | → | Open Ended Interviews |

Data Collection Phase 1

Collecting data began with a review of published documents on the external audit at local authorities in England. These are mainly official document from government and its agencies, such as the AC, local authorities and the Department of Communities and Local Government (DCLG). This stage started from January 2006 intensively for almost a year, and continued with checking for updates and further details through to 2009. The findings from reviewing archival documents are discussed in Chapter 2 of this thesis. Williamson et al. (1997) argued in terms of reliability of the archival documents:

> "There are some records, however, which, by their very nature, we can logically assume to be most accurate. We would, for example, expect there to be no intentional deceit or error in stenographic or taped records of courts, political bodies, or committees. Notebooks and other memoranda are also high in credibility because they are intimate and confidential records"
>
> [Williamson et al., 1997, p. 264]

Advances in internet technology has helped particularly at this early stage and also when collecting published assessment scores. Spending time browsing the internet on official websites provided information pertaining to my research interest, explaining the policies, procedures, processes, developments and links to other details. These have saved a lot of time and resources necessary to understand the foundation of this research.

The AC has its own website providing detailed information of its background, function, tasks and reports (http://www.audit-commission.gov.uk). These include the reasons, justification, relevant policies and government papers, the external audit process, information on auditors, scored performance result, rules for the scoring, guidance for local authorities in dealing with the external audit process, information for appealing, consultation papers and national reports to name a few. Information on the AC's structure, committees and teams for various functions are also provided. Hardcopies of documents provided on this site can also be purchased. I reviewed almost all documents to gain understanding but the documents published and updated frequently related to the CPA were used in great deal at this review stage (http://www.audit-commission.gov.uk/cpa/index). That site also contains information on the UoR which is vital for this study. Detailed information on the CPA and UoR history, the inspectorates, consultation documents (proposals for assessment framework, prototype, press releases, various consultation feedback and next steps, scope, issues in engaging public, joint inspectorate etc), events, discussion papers (the future of regulation on the public sector, assessment of local service), explanation on the evolution of regulation and suggested preparation for those involved are provided.

I visited the Commission website regularly to check on updates and new information. I also emailed the web administrator to give feedback on my experience browsing through the website to get advice on access to information. I found them very responsive to requests; the website was updated on an almost daily basis and contains a lot of very recent information. The section on frequently asked questions (FAQs) was also very useful because it includes step by step guides to understand how the CPA works and related issues. Information on the appointed auditor for each local authority is also provided with their date of appointment as well as tenure, addresses, team manager and contacts.

The AC also provided a 'Technical Directory' for its appointed auditors (http://www.audit-commission.gov.uk/technicaldirectory/lg/index.htm). Access to this site is given to the public. This 'technical directory' provides various links to the Audit Commission Act 1998, Code of Audit Practice (Local Government 2005), Statement of Recommended Practice (Local Government SORP 2007), Standing Guidance Notes for local government auditors, SORP Guidance Notes for Practitioners 2007 and other information. I also checked and compared information provided at the Audit Commission's page for Scotland and Wales. The AC website

also provides links to other useful websites such as the local authorities and other government agencies.

Individual local authorities have their own websites publishing all sorts of news, reports, records and other structural and environmental information. The same material provided in hardcopies for local people can also be accessed electronically via the local authorities' individual website. I accessed local news, events, happenings, innovations as well as comments from the councillors on their events and achievements. They also provided statement of accounts pre and post audit and minutes of meetings. One of the audit assessments is that local authorities should have an audit committee or similar. From the committee's minutes of meetings, I gained extra information to supplement those lacking from statement of accounts such as which director signs the statement of accounts, the auditor and audit team, and the person responsible for the UoR assessment. I also used other documents to crosscheck the information I obtained, and local authorities' websites in particular were used to extract information on the statement of accounts, the auditor's report and to gain access for interviews.

The DCLG publishes reports on consultations, research and statistics, and many other reports relevant to local authorities (http://www.communities.gov.uk). I used the section on 'about cities and the region' to understand the Yorkshire and The Humber region and its situation relative to other regions throughout England. The DCLG website also provides links to other websites relevant to local government. Among the links that I found useful were:

- the Association for Geographic Information (AGI) which provides a communication channel;
- the Best Value Performance Indicators which provides information on all policy aspects of Best Value in England;
- Central and Local Government Information Partnership (CLIP) provides information on consultation between Central and Local Government on non-financial data and statistical issues; and
- the National Statistics which provides statistics on Britain's economy, population and society at both national and local level.

Separate pages are created on this website to provide information for different government regions, called the 'government office network' including the Yorkshire and The Humber region (http://www.gos.gov.uk/goyh). Links to the other eight regions' web pages are also provided. Having all this detail helped me to generate a portfolio to each of the 22 local authorities in the focus region of Yorkshire and The Humber. The portfolio includes:

i. local authorities' environment including location, socio-economics, politics, structures, council members; and details on finance departments in particular;
ii. their statement of accounts (pre and post audit) from 1999 to 2008 as well as information on their auditors;
iii. the external auditor's report for each of the years, and other reports accompanying their accounts;
iv. their performance scorecard for each year from 2002 which is based on the CPA and UoR assessment; and

v. the annual audit letters written by the relationship manager assigned by the AC for each local authority.

The next section will discuss the collection and uses of the published scores.

4.5.2 Published scores

| Archival Documents | → | Published Scores | → | Open Ended Interviews |

Data Collection Phase 1

Published scores from external auditors' work at local authorities will be discussed in Chapter 5 of this thesis. As their work covers certification audit and use of resources assessment, two distinct reports are available, which were collected and analysed.

4.5.2.1 Certification Audit

This stage was mainly done from June to December 2006, and continued every year as new statements of accounts and reports were published. Prior to the fieldwork interview, I reviewed the latest statement of accounts at each local authority's website to prepare questions to probe during interviews for information specific to each local authority. The analysis of certification audit included in my discussion in Chapter 5 was for the years ended March 1999 to 2007. For certification audits, the main documents that I used were local authorities' statement of accounts, auditor's reports, annual audit letters and minutes of meetings. As local authorities are also required to publish pre-audited statement of accounts, this gives me two sets of statement of accounts each year for every local authority, the pre and post-audit statement of accounts.[14] The pre-audited statement of accounts was made available for public inspection at several places where council offices are located. The announcement is then made via a local newspaper. The pre-audited statement of accounts is also uploaded to their website for public inspection alongside the notice.

Local authorities upload much information pertaining to their organization and localities. This eased my task of creating their portfolios and understanding them as a unit of analysis of a case. When I began compiling the portfolio in 2006, local authorities were in the process of improving their websites; I was able to collect recent statement of accounts especially for 2004, 2005 and 2006. Contact emails and phone numbers were provided for visitors to their website to ask for more information. Hence, I contacted them whenever I could not locate the information needed. Responses to my requests were very encouraging; some local authorities sent hardcopies of their annual accounts, with others sent in email attachments. Those that were silent even after I submitted my requests uploaded all the statement of accounts on their website soon after. I had no problem downloading statement of accounts for year ended

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[14] Some local authorities publish their annual pre-audited statement of accounts using high quality printing with glossy paper and colourful booklet, while others publish like a draft

March 2007 and 2008 (pre and post-audit) as they are all available on local authorities websites. I found that towards the end of year 2007, local authorities' websites throughout Yorkshire and The Humber region had improved significantly. Information which I requested via email in 2006 was mostly available on their web and similar series were made available very soon after audit (August every year) for the subsequent years 2007 and 2008. To conclude, data collected for discussion and analysis (in Chapter 5) of certification audit at this phase for all 22 local authorities were:

Table 25: Documents collected for Certification Audit discussion

	Documents	Period	Notes
1-	Pre-audited statement of accounts	1999-2008	10 sets/years each
2-	Audited statement of accounts	1999-2008	10 sets/years each
3-	Auditor's report	1999-2008	10 sets/years each
4-	Auditors notices and objections	1999-2008	When available
5-	Annual audit letters	2002-2007	The function of relationship manager were stopped in 2007

4.5.2.2 Use of Resources Assessment Score

Besides auditing the annual accounts, auditors are also responsible for assessing local authority's Use of Resources (UoR). The AC published annual assessments for UoR and its details on their website. Scored performance for UoR and its themes were collected as well as the Comprehensive Performance Assessment (CPA) rating, from 2002[15] until 2007. The district councils' assessments were not scored until 2004, therefore scores from district councils' were available only from 2004 onwards. All these scores and relevant explanations are available at the AC website: overall results on UoR page and specific reports for each local authority on their own dedicated page. Local authorities' websites also publish the scorecard and explanation on the scores they obtained. Table 26 below specifies the documents collected for the UoR analysis and discussion. Annual audit letters were used for both certification audit and UoR audit discussion.

Table 26: Documents collected for Use of Resources Assessment discussion

Documents	Period		Notes
	Single Tier and County Councils	District Councils	
UoR overall scores	2002-2008	2004-2008	
UoR themes scores	2002-2008	2005-2008	
CPA ratings	2002-2008	2004-2008	
Auditor judgements scores	2002-2004	-	Stopped when 'the harder test' was introduced in 2005, available only for single tier and county councils.
Annual audit letters	2002-2007	2004-2008	The function of relationship manager were stopped in 2007

There are several scores available in the CPA regime:

(i) the CPA rating, on a five-point scale of poor to excellent (2002-2004) and later on a five-star rating from zero to 4 stars (2005-2008);

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[15] 2002 is when the year UoR started to be assessed and scored

(ii) overall UoR scores, which is the result from themes' scores, on a four-point scale from one to four,

(iii) UoR themes' scores, also on a four-point scale, comprises of five separate themes of financial reporting, financial management, financial standing, internal control and value for money.

The scores related to UoR were tabulated, graphed and analysed to see trends or dispersion, for all themes and the overall scores. The discussion also included CPA scores and direction of travel rating which will then be embedded in the fieldwork interviews.

4.5.3 Triangulation for Secondary Data: Open Ended Interviews

| Archival Documents | → | Published Scores | → | Open Ended Interviews |

Data Collection Phase 1

Interviews are basically conversation but for research reasons it can be defined as attempts to understand the world from the subjects' point of view, to unfold the meaning of peoples' experiences, to uncover their lived world prior to scientific explanations (Kvale, 1996). There are three main actors involved in the external audit and assessment at local governments in England, the AC, the external auditors and local governments. Local governments, as the main focus of this study, will be interviewed in data collection Phase 2. Data collection in Phase 1 are secondary data, thus it is necessary to 'understand from the subjects' point of views' besides confirming the accuracy and sufficiency of information collected as a means of triangulation, so the data is more reliable. Thus, interviews were also done in Phase 1, with the AC and external auditors to confirm information obtained via AC website, to seek explanation and help on information unavailable and to gain more understanding on the process. Access to these interviews was obtained through Professor Heald's contact. Two interviews were held, one with an AC manager directly involved with the UoR assessment for local authorities, and another with an external auditor from a private sector firm having experience of auditing local authorities under the AC's regime. Specific details on these interviews will be explained in the subsection that follows.

Both interviews used flexible open ended-questions allowing information to be extracted (Kvale, 2006). Qualitative interviewing is most useful for evaluating programs that are aimed at individualized outcomes, capturing and describing program processes, exploring individual differences between participants' experiences and outcomes, evaluating programs that are seen as dynamic or evolving, understanding the meaning of a program to its participants and documenting variations in program implemented at different sites. For these interviews a list of questions were prepared, specific questions for different interviewees, although covering the same aspects of the external audit process but vary depending on the position of the interviewees. Before each of the interviews, a checklist of items was created, which were asked accordingly within the time permitted. Using semi-structured interviews allows the

researcher to be flexible with the guide, either eliminating or adding questions, in and across interviews. This proved to be an important feature since it allowed the interviewees to freely explain their experiences and link to various issues within the context. Therefore some questions were answered without being asked and some linkages of themes were also discovered to build upon the understanding based on secondary data available. Both interviews were transcribed and utilised for designing the main fieldwork interviews. The two sub-sections that follow will discuss the two triangulation interviews held in data collection Phase 1 (4.5.3.1 Interview with the AC's manager and 4.5.3.2 Interview with the external auditor).

4.5.3.1 Interview with the Audit Commission's Manager

The interview was conducted on the 26th June 2007, in a two-hour session at the manager's premise, during which the structured questions for fieldwork interviews were being designed. The interviewee was chosen for being directly responsible for the UoR assessment system at the national level. Because the main aim of the meeting was to seek more understanding and information about the processes, questions were prepared based on six main themes. For each theme, I prepared a list of items that needed clarification. Table 27 summarised the topic prepared to guide the meeting (detailed questions used as checklist during the interview is available in Appendix 7). Professor Heald attended the meeting with me, therefore we used the guide as agenda for our meeting but it was not shown to the manager.

Table 27: Summarised Checklist for open-ended interview with the Commission's manager

1	DOCUMENTATION
	- to check for missing documents and to confirm published information
2	UOR'S OVERALL AND THEMES
	- to seek explanation on the technicality of every themes, the mechanism for auditors' allocation, the relative importance of UoR themes, overall score and CPA, changes to CPA, changes in regulations and other requirements, help available to local authorities
3.	PERFORMANCE AND SCORES
	- to seek explanation on published scores, get details of KLoEs scores if available and possibility of obtaining
4	RULES FOR THE SCORE
	- to seek explanation on how the scoring process is done and why only VFM requires self-assessment
5.	KEY LINES OF ENQUIRIES
	- to seek explanation on the development of KLoEs, guidance for local authorities, training for auditors and other related technical issues
6.	APPLICATION FOR REVIEW
	- to seek explanation on the review process, numbers of local authorities requesting for review and chances of successful review

During the interview, the manager spoke freely on the topics. I ticked the checklists and asked supplementary questions on what was not covered in the manager's explanation. Administering the interview this way helped a lot in clarifying information found in published

documents and on the web. The manager allowed us to email for further explanation and details if necessary. Input from this interview was used to strengthen the design of structured interview questions because it confirmed and completed the information obtained through secondary sources. The interview also provided researcher with initial expectation of responses from auditees and cross-checked for their responses to ensure data reliability.

4.5.3.2 Interview with the External Auditor

The interview with the external auditor was conducted on the 13th March 2008 after designing and pilot-testing the structured interview questions but prior to fieldwork interviews. The interviewee voluntarily participated and was chosen for having had experience auditing several local authorities using the UoR assessment system. One hour was allocated for this session and the interview was held at the AC's premise. The interview was aimed at exploring experience of using processes designed by the AC from the evaluator's (auditor) point of view to help the researcher during data collection Phase 2. Table 28 shows the issues asked.

Table 28: Checklist for open-ended interview with the External Auditor

1.	Auditors involvement in preparing, refining and administering the KLOEs for UoR
2.	Auditors involvement in moderation of scores;
3.	Views on the KLOEs level of difficulty to interpret, follow, or achieve by local authorities- themes and levels
4.	Opportunity given to auditors to contribute and challenge the KLoEs
5.	Views on the frequent changes and alterations in KLoEs and its components
6.	Relevant of UoR audit to auditors core competence
7.	Affect of the assessment process and judgement on relationship with audited body and local authorities acceptance
8.	Views on improvement seen in published scores

The questions asked were aimed at encouraging the respondent to share his experience as external auditor and to express his views. As the interview was semi-structured, several prompt questions were asked to cover the issues above and the respondent was encouraged to freely express his opinions. Input from this interview was used to confirm information obtained from the AC documentations which influenced my understanding of the process. It helped to neutralized bias and correct misconception should there be. Understanding the auditors' point of view helped with initial expectation of auditees' responses and opportunity to prepare for additional probing questions for specific local authorities. The external auditor's view also provided a check-and-balance to the auditees' views that will be gained in Phase 2. Consequently, the following section will discuss on the data collection Phase 2 which is structured interviews with auditees from the 22 local governments selected for this study.

4.6 Data Collection: Phase 2

Phase 2 data collection is the fieldwork interviews with local governments in Yorkshire and The Humber region. Three main steps involved to accomplish data collection for this phase, are illustrated in Figure 26.

| Designing Interview Question | → | Pilot Testing | → | Main Interviews |

Data Collection Phase 2
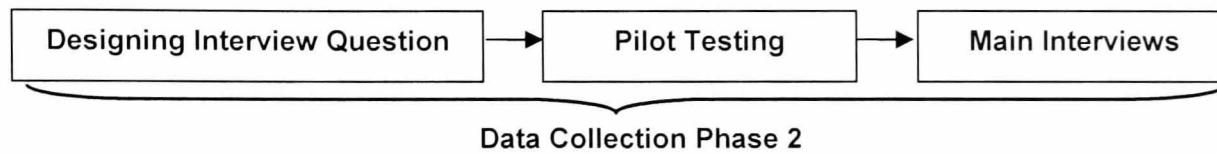
Figure 26: Data Collection Phase 2

This section will discuss the designing of interview questions followed with the pilot testing and finally the main interview, which involve gaining access to actual respondents, follow up to achieve the desired number of interviews, and transcribing the interviews to enable grouping and quotations of important explanation from the interviewees being done. Therefore sub-sections that follow will discuss the stages as shown in Figure 26 above. Before explaining the stages involved, introduction to and importance of interviews will be discussed.

While secondary data in terms of documents and quantified performance measures are available and utilised, interviews to collect primary data is considered more valuable and meaningful in social research (Cassell and Symon, 1994; Kvale, 1996). Interviews are considered the most important qualitative method (Easterby-Smith et al, 2002), West (1999) pointing out that an interview

> seeks information on respondents' actions, reactions, preferences, perceptions and requirements (p.93).

Interviews can be structured, semi-structured or unstructured (Hussey and Hussey, 1997; Saunders et al, 2000; Blaxter, Hughes and Tight, 1996). These vary from a formal verbal interaction with a closed and structured set of questions prepared beforehand (structured interviews), to an open and free exchange of ideas without any prepared questions (unstructured interviews). Quotations gained from qualitative interviews may reveal the respondents level of emotion, views, experiences and perceptions, but a framework within which interviewees can respond in a way that represents accurately and thoroughly their point of view about the program is necessary (Patton, 1987). Open-ended, qualitative interview questions are often combined with more close-ended, structured interview formats. Qualitative interviews may be used as an exploratory step before designing more quantitative, structured questionnaires to help determine the appropriate questions and categories. Conversely, interviews may be used after results of more standardized measures are analyzed to gain insight into interesting or unexpected findings.

For the purpose of this study, I used structured style statements for respondents to mark their answers and return to me before the interview. The marked answer-choices by respondents could be utilised for frequency tests to discover trends and be used to structure discussion of

findings from the fieldwork interviews. Structured interviews were chosen for the main data collection because it could help to contain discussion within context and it informed the respondent on the area of discussion. The respondent was encouraged to elaborate and explain reasons for their answers which provided an opportunity to capture more information and to testify complete coverage of the issues discussed.

Though the questions prepared were structured, the interviews were run in a flexible way, allowing respondents to explain issues relevant to the questions asked, probing with other short questions where necessary depending on interviewee's local authority's performance and environment. The probing questions were prepared beforehand after receiving responses via completed questionnaires, and based on specific local authority's environment and performance. Having conducted all the interviews myself, I could say that having structured interviews has helped in managing the interview sessions and the discussion did not limit respondents at all but guided them on what should be explored. Therefore the instruments works as semi-structured interview guides to contain discussion within topics and covered all the issues concerned within time allocated.

Interviews can be conducted in many ways; face-to-face, by telephone or by e-mail. Face-to-face interviews allow:

> ... answering a respondent's questions; probing; prompting; and the facility to use complex question sequences
>
> (Burton, 2000, p.323)

Thus, in face-to-face interviews the researcher may explore emergent issues, understanding better the answers since there is a direct, physical contact between the researcher and the respondent. Telephone and e-mail interviews may save time, but have the disadvantage of being more superficial, since there is no 'eye-contact', which may lead to some misunderstandings.

In this study, face-to-face, structured interviews were conducted, having in mind that "participants' perceptions, understandings of meanings and interpretations were most important" (Stroh, 2000, p. 201). I reviewed the local authority's background: demographic, economic, political, and recent CPA assessment scores to help with facilitating the session. The interviews provided an opportunity for the respondents to explain why they had chosen certain answers in the structured questionnaire. Before each session started, a copy of their responses to the structured questions was given to the interviewee. They also had the opportunity to ask explanations when they felt that the questions were unclear. I also used the opportunity to ask them to complete unanswered items on the questionnaires. The face to face interview sessions were very productive and encouraging. In the 19 interviews carried out, the interviewees all seemed prepared and relaxed, which contributed to an open and friendly atmosphere. They appeared to speak freely about their perceptions, experiences and

opinions. Thus, the next section will start will the first stage in this data collection phase, designing of the structured questions for interview.

4.6.1 Designing of the Structured Questions for Interview

Designing Interview Question	→	Pilot Testing	→	Main Interviews

Data Collection Phase 2
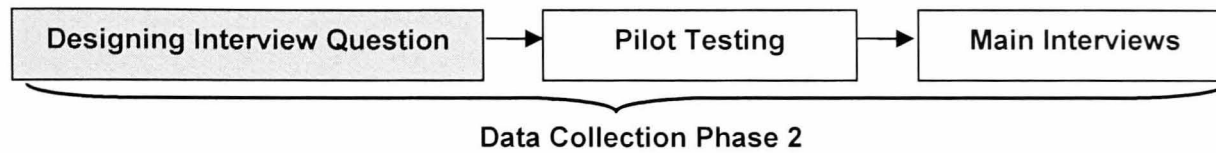
The interview questions were designed based on the review of government regulation and procedures (discussed in Chapter 3), review of literatures (discussed in Chapter 2), the interview with the Audit Commission's manager and the external auditor (discussed concurrent with review in Chapter 2 and Chapter 3) and the analysis of the secondary data (discussed in Chapter 5). As the questions were planned to be structured, the design phase took much longer than expected to ensure it captured all relevant aspects. Statements instead of questions were created so respondents would have to explain further why they chose certain answer choices. Bryman (2004) noted that when using a Likert-scale, the items must be statements and not questions.

Drafting the statements started from February 2007, after the research proposal was approved beginning with mind-mapping from the research questions followed by issues discovered from reviews and published results. At the initial stage, many short questions were generated to itemise the issues that needed explanation/discovery. The issues and short questions were divided into three sections of (i) certification audit, (ii) Use of Resources assessment and (iii) overall CPA. This is to allow greater explanation from respondents and avoid mixing up issues which could result in missing them from discussion due to their link and overlapping with each other. Groupings of the questionnaire also provided more structured thinking when generating the statements.

The statements were designed to invite respondents to explain the reasons for their answer choices. The statements' structure and wording had to be thought through carefully based on the importance of issues as well as the ordering of the statements. A concise statement was created to cover many short questions generated at the initial stage so that the structured interview question set was not too lengthy. That also required much thinking and resulted in statements that always invited respondents to explain more. A five-point Likert-scale was used which varies from 'Strongly Agree' to Strongly Disagree' to the statements. A 'No view' column was allocated should a respondent be unable to respond on the statements because of the technical nature of the issues asked. This recognized that some council may not experience certain issues so the respondent may not wish to provide a view.

Professor Heald was involved in the generation of the statements, thus, once the statements were ready, I let several colleagues who have management and accounting background review these. None could suggest answers to the statements because of its technical nature, but they suggested that the statements were easily understood and the set did not seem too long. The questionnaire also went through two one-hour discussion sessions with different English teachers. The first session was prior to my colleagues' revision and the second one was prior to the pilot testing. The reason why I requested different English teachers was to confirm the readability of the statements and it was also suggested by the teacher from my first session. The instrument was then ready for pilot testing after 10 months of designing, see Appendix 5. At the end of November 2007, I started to identify local councils for pilot testing which is presented in the next section.

4.6.2 Pilot testing the instrument

Data Collection Phase 2
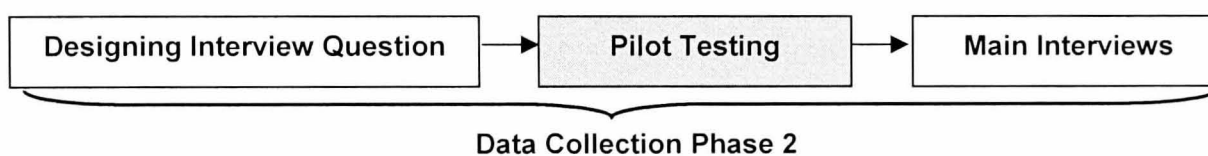
It is generally recognised that a pilot test of the chosen research method should be made, in order to identify possible problems and to correct them before the major study starts (Oliver, 2004; Easterby-Smith et al, 2002; Clough and Nutbrown; 2002; Stroh, 2000; Blaxter et al, 1996). The main aim was to test whether or not the questionnaire would be likely to discover the issues concerned and to identify possible problems in order to improve it before the main data collection. It was important to verify if interviewees understood the questions, whether the structured-statements were correctly formed, their sequence was logical, whether an hour planned for interview was sufficient, and to check for any other limitations (Oliver, 2004; Clough and Nutbrown, 2002). Furthermore it provided practice before the interview with local authorities in the focused region. Having the pilot helped guide for improvement and gaining confidence in interviewing.

4.6.2.1 Interviewees for Pilot Testing

The respondents for pilot testing were chosen from local authorities in a region other than Yorkshire and The Humber. The North West region was chosen as it borders Yorkshire and The Humber and would resemble similar environmental and economical characteristics. The region is nearby and allowed accessibility. The authorities in the region go through same regional moderation as Yorkshire and The Humber for scores after the external auditor concludes their audit work. The respondents targeted were the Director of Finance, Manager for Financial Accounting and Manager for Use of Resources, which will be the respondents for main fieldwork in the study region.

A similar approach to local authorities in the pilot region was adopted as in the focus region. This involved tabulating UoR and themes scores from 2002 to 2006 and studying trends. Five local authorities that were performing well were chosen from the region, and their audit reports were collected and analysed, and contact details for each Director of Finance were identified. Authorities that are performing well were chosen because it was assumed that they were more likely to respond to our request for meeting with them.

4.6.2.2 Access for Pilot Testing

From the local authorities' website, contact details and email addresses for the Director of Finance were collected. The Directors of Finance were chosen as contact persons because of their authority in the Finance Department for each local authority. They were then contacted through email in November 2007. Only one Director of Finance responded, expressing a willingness to participate, and providing all the three respondents necessary. The questionnaire was then sent with an email describing the procedures for the interview; asking them to complete the structured-statements beforehand and providing copies of the questionnaire for discussion during interview sessions. It is important to mention that these three pilot interviews were much easier to arrange than expected. In less than three weeks, on the 5th December 2007, the three interviews were arranged and carried out. Unfortunately, in the main interviews phase, access was much more time-consuming to obtain, which will be discussed later in the chapter.

4.6.2.3 Reflection – Changes Made based on Pilot Test

The pilot study went very well. Few amendments to the questionnaire were necessary. None of the statements were removed. Respondents reflected that the questions cover the assessment done by auditors and were easily understood. They even said the statements made them think about the value of the assessment which they never had time to think about before. The only alterations involved were to add space in between sections so respondents could write some comments when they mark their answer choice prior to the interviews. After discussions with supervisors, the font size used was increased and more space were provided in between statements and sections to allow the structured-statements prepared looks less compressed, and the questionnaire becomes six pages instead of four due to extra spacing provided.

The pilot testing provided me with greater confidence about the questions. It assured me that the questions could work in getting people to talk about the external audit process, to probe with other questions specifically applied to individual local authorities and to discover other aspects if necessary. Another very positive aspect of the pilot test was to improve my interviewing skills. Although I have had experience meeting with the Audit Commission's manager, that was more of a meeting rather than interview, where the questions prepared

were open ended. The pilot test involved meeting with real subjects similar of those whom I would meet during main interview phase.

The pilot test proved that the structured-statements would work and would fit into the one hour session providing that I exercised care and control so that respondents would not wander away in their explanation. Professor Heald and I also found that the two managers (Manager for Certification Audit and Manager for Use of Resources Assessment) responses could be removed should we able to get the Director or Head of Finance to response. This is because both managers tend to be expert only in their area and did not comment much about other areas. In contrast, the Director or Head of Finance provided a clearer and broader view and was able to comment on wider aspects of local authority performance.

The Director of Finance in the pilot interview had experience working with many different types of councils and was highly educated. Therefore the session we had with him was very fruitful. It was a helpful experience, enabling me to improve and prepare on several aspects for the main data collection, especially to listen carefully to the interviewees, probing only when necessary because the respondents normally were called to explain the structured statements, to follow the sequence of the structured questions, to remain calm and keep to time limit. Thus, I was ready to proceed to the main interviews.

4.6.3 Main Interview

| Designing Interview Question | → | Pilot Testing | → | Main Interviews |

Data Collection Phase 2

This section will discuss the main fieldwork interview process which lasted for 10 months from distributing the structured interview questions in March 2008 until the last interview held in December 2008. The period was long as it was not easy to access the Director or Head of Finance at each local authority, and the two managers which were also invited to respond often refused the invitation although some marked and returned the questionnaire. The total number of questionnaires received was 28 (two councils completed three each, and four councils, each completed two). Out of that total 21 were from the Director or Head of Finance representing 20 local authorities. One Director of Finance had left the position before the fieldwork interviews had started, and the new Director of Finance also completed the instruments and was interviewed later. Therefore responses from the one who had left the council was not analysed and the non-parametric analysis were done only with the 20 marked responses from 20 local councils throughout the Yorkshire and The Humber region. One council ignored our request although many attempts were made to elicit a response and the other one replied in email expressing unwillingness to participate because of not being convinced that the study would make any contribution to them. Only nineteen local councils

were interviewed because one Director or Head of Finance refused but provided written comments with the instruments. Table 29 below shows the details.

Table 29: Fieldwork Interview Figures

Description	Numbers
Local councils contacted via post	22
Structured interview questions issued (3 to each local councils)	66
Marked interview questions returned	28
Responses from Director or Head of Finance	21
Local councils represented	20
Marked interview questions analysed	20
Interviews held	**19**

The main interviews involved several stages. The next sub-section will describe on the respondents of this study, followed by obtaining accessed to the respondents, ethical consideration, the checklist guide for interviewing and finally on the timing, duration, location and transcription of the interviews. Figure 27 informs the flow of discussion for main interviews:

Main Interviews

Figure 27: Implementation of Interviews

Thus, the discussions now turn to respondents for the interviews.

4.6.3.1 Respondents

Main Interviews
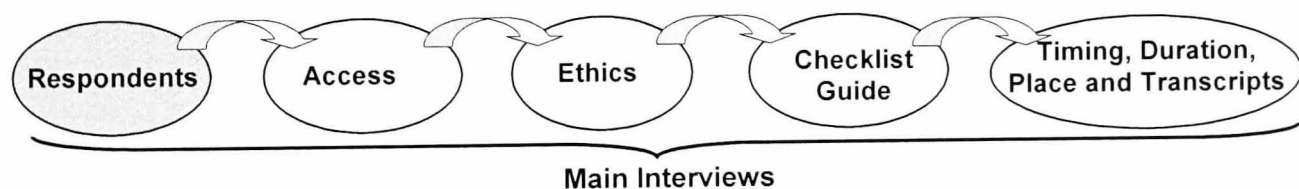
In every research project, either qualitative or quantitative, it is necessary to select a sample with which the study will be carried out. Sampling is concerned with the "segment of the population that is selected for investigation" (Bryman and Bell, 2003, p.93). There are two major types of sampling: the probability and the non-probability sample (Saunders et al, 2000).

In probability (representative) sampling, the probability of being selected equals to the whole population and a complete sampling frame (complete list of all the cases in the population) is

necessary to enable its application. In non-probability (judgemental) sampling, the probability of being selected is unknown, since it is neither representative, nor necessary to have a sampling frame. Probability sampling is suitable when research questions and objectives need to estimate statistical characteristics of the population, while non-probability sampling is suited to research questions and objectives which do not require generalisations and are intended to explore in-depth characteristics of a smaller sample (Saunders et al, 2000). Thus, a relationship exists between probability sample and positivism, and between the non-probability sample and phenomenology (Oliver, 2004).

Purposeful sampling is defined as "hand-picking supposedly typical or interesting cases" (Blaxter et al, 1996, p.79). The "purposive" sampling enables the researcher to use his/her own judgement to select the sample cases which will best address the research aims, objectives and questions (Saunders et al, 2000). This sample type is small, not representative and commonly used by grounded theorists (Goulding, 2005; Oliver, 2004; Robson, 1997). Saunders et al (2000) argued that one of the common strategies in purposeful samples is to choose *homogeneous* sampling, observing that this

> focuses on one particular sub-group in which all the sample members are similar. This enables you to study the group in great depth (p.174).

Having in mind the research question, aim and objectives, an identical purposive sample was considered the most suitable to this study, which are the local authorities. It was considered that the Director or Head of Finance would be the most adequate to provide the perceptions of recipients of the audit-inspection regime imposed by the CG and administered by the AC. The Directors or Head of Finance from 22 local authorities in the government region of Yorkshire and The Humber were contacted. Various researchers agree to this approach of selected cases and selected respondents which are considered able to "best" address the "purposes" of this research to provide answers to research questions, aims and objectives (Goulding, 2005; Oliver, 2004; Saunders et al, 2000; Robson, 1997). Blaxter et. al (1996) and Sauders et al (2000) state that purposeful sampling like this is ideal for research projects where the sample cases are chosen reflecting the researcher's own judgement in selecting the best cases to address the research aims.

The fact that interviewees were a *purposeful homogeneous* sample (Saunders et al, 2000) of a group of "Director or Head of Finance", with similar experiences and decision processes regarding the Use of Resources assessment activities was an advantage to this research because the interviewed Director of Finance had rich understandings and experiences of the research topic. As argued by Oliver (2004):

> the purposive sampling process may seek to identify people who, because of their experience or contacts, have special insights into the research question (p.129)

Respondents or interviewees for this study was very specific because I need to get the Director or Head of Finance from the 22 local councils in Yorkshire and The Humber region to

agree for interview. Getting the Director or Head of Finance to provide his or her views gave solid information for this study as they represents the highest authority for the Finance Department which is subject to external audit. When the questionnaires were issued, three sets were sent to each local council to invite participation from the Director of Finance, Manager for Certification Audit and Manager for Use of Resources assessment. I found that usually only the Director or Head of Finance responded and agreed to be interviewed. Even if the managers were to agree, he or she would be agreeing by approval from the Director or Head of Finance. Based on the pilot testing done earlier, it seemed appropriate to interview the Director of Finance if available, because he or she was the most senior financial officer.

At two local authorities, the Director or Head of Finance invited the manager who dealt directly with the external audit to join the interview. Once the meeting had started, all the respondents were very cooperative and willing to share and explain their experiences. The allocated one hour was sufficient to seek explanation on the structured-statements respondents have marked earlier, as confirmed during pilot testing. However some respondents allocated the whole afternoon for the meeting and some interview lasted for up to two hours because the respondent wanted to explain his/her experiences and views.

I was surprised at respondents' enthusiasm for the study. They challenged me with many interesting questions when we finished discussing the structured interview questions such as asking me explain what I plan to do with my findings, what would be the contribution, is the system similar to Malaysia and how I would apply my study to Malaysia. The respondents also seemed content and engaged in my explanation and suggested many things for me, for example: (i) to come back and interview them after they experienced CAA, (ii) to email them if I want to learn and document their improvement in 'data quality' measures, (iii) to visit them if I want to learn and share their internal audit development and experience, their 'procurement procedures' and etc. The interviews have always been enormously motivating factors for me and provided many hopes for my planned future research which could benefit my country. In total 19 Director or Head of Finance were interviewed. How access to interviewees was obtained will be discussed now.

4.6.3.2   Access

Main Interviews

This section is concerned with how access to interviewees was achieved. Some ethical considerations are also examined. Since all the interviewees were senior persons at each local authority's finance department, they must be "busy people". The first contact to request

an interview appointment with the structured questions was made by post for formality reasons and to allow a follow up by e-mail, should the local authorities not respond. The letters which were sent to interviewees, the director of finance, in early March 2008, each contained (i) supervisor's support letter; (ii) synopsis of the research; and (iii) three copies of the structured questions with a self-addressed return envelope for each. This first attempt was targeted to each Director or Head of Finance and requested the two other managers to response. The strategy was to invite responses from key person dealing with the assessment/audits, so that at least we could receive a response from each local authority. Although the pilot test showed that the Director or Head of Finance has the overall view and was the most appropriate respondent, other managers may be experts in the area they manage.

From the postal request, I received four responses within 2 weeks; each completed the questionnaires but all declined interview because of their busy schedule. After waiting for 6 weeks from the day letters were sent out, a follow up email was sent in mid April 2008 to the silent local authorities. Electronic copies of synopsis and structured questionnaires were also attached. This second attempt yielded an additional 15 marked questionnaires from all three types of respondents at local authorities. None however agreed to interview.

Six weeks after the first follow-up via email, in early June 2008 another follow-up (third attempt) was earned out by my supervisors. Professor Hodges sent the follow-up email, and Professor Frecknall-Hughes then communicated with the secretary from the local authorities' finance department who had responded to the email to arrange interviews. This resulted in interview appointments with nine local authorities in July and August 2008. The next attempt was done through Professor Heald and his assistant by email and phone calls to draw more participation from local authorities. Ten local authorities agreed to interview which were completed from October to December 2008. Thus 19 interviews were held from July to December 2008.

Throughout March to December 2008, a total of 28 marked responses were received from 20 local authorities. Interviews however, were done with one main respondent from each local authority. Thus, for the purpose of statistical analysis, only 20 marked responses to the structured questionnaires were considered; one from each local authority which responded. The results of frequency and mean analyses are presented in tables throughout Findings II, in Chapter 6 as a guide to discuss interview responses. Although one director of finance was not interviewed, marked responses from the local authority were considered, as the director provided his comments on the space allocated. Local authorities which had not responded were contacted and their refusals to participate were received. One local authority refused because they have not had a Director or Head of Finance since the previous person holding

office had moved and another local authority refused because they saw no contribution of this research to their local authority.

I consider 20 responses from 22 local authorities in the region to represent an excellent response rate. The data collected should be reliable as they came from the main person involved in the assessment process. The Directors or Head of Finance generally had wide experience with many different types of council or through sharing with their circle of professional colleagues. Several positive factors have been learned from the process,

The respondents' general environment was understood. This was an advantage because my research treated each local authority as a case study in which I knew a lot about their position, environment (political, economical, social, and demographical), performance and problems or issues they faced. Understanding those plus their marked responses helped a lot in listening to their responses and probing for more explanation.

Having the respondents mark the structured questions before interview sessions. Enabled me to listen more to the respondents, understand their responses and prepare the aspects on which I should spend more time. The respondents were responsive as they knew, through the structured questions, the whole focus of this research.

The credibility of the findings was enhanced through the academic nature of the research. The professional and intellectual level of respondents and the exact position they hold which enable them to respond directly based on their experience contributed to improved credibility.

The research results were offered to interviewees. This was considered an important incentive for interviewees to participate since this research has direct relevance for them (Saunders et al, 2000 and Blaxter et al, 1996). It was noticeable that most of the interviewees were very keen in receiving the research results. A report with key findings and practical implications of the research findings will be generated in the end of the study and send to all the interviewees.

The interviewees were persons visibly curious and open to new perspectives, which may result from the strong responsibility they have in their jobs. It was my feeling that most of the interviewees were keen in helping others, especially in a project they respect and are interested in. This supports the argument of Easterby-Smith et al (2002) who pointed out that there are "a few enlightened sponsors who are sufficiently curious about the world in which they work to support research for its own sake" (p.73). I would even suggest that people, specifically in this sample, not only wanted to help but they had a sense of "obligation" in doing that. Thus, although sometimes being difficult to arrange the interviews due to time constrains, I always sensed that interviewees were interested in the topic and willing to

contribute to this research. In fact, it is not everyday that these people have this type of opportunity of sharing their feelings about a topic directly related to their jobs. That was the reason why I never quit to follow-up them, even the most "difficult" cases, until the interview was finally arranged.

The interview request was made first via post, and then follow-up through e-mail before making phone calls was a positive choice in order to obtain access. By doing this, it allows several steps to follow up on the researcher side and creates a little time pressure on the respondents' side. Curiously, some of the interviewees mentioned this point, when asked how they preferred to be contacted, some answering making a parallel with the interview request, considering that the e-mail is the best way.

Finally, it is important to note that various ways to follow up with targeted respondents has help massively in ensuring all respondents were approached and convinced to participate in this research, and on the appeal made to encourage responses which includes:

- your responses is vital to this research as I am only studying this group of local authorities;
- results of this research will be sent to you when the analysis is completed;
- and at the end of calling for more participation, to tell them that almost all local authorities in the region have participated, thus if they want their views heard, they should meet us.

I think that this type of appeal was also seen as friendly and motivates interviewees to give access to the research project, hence accepting the interview request.

4.6.3.3   Ethics
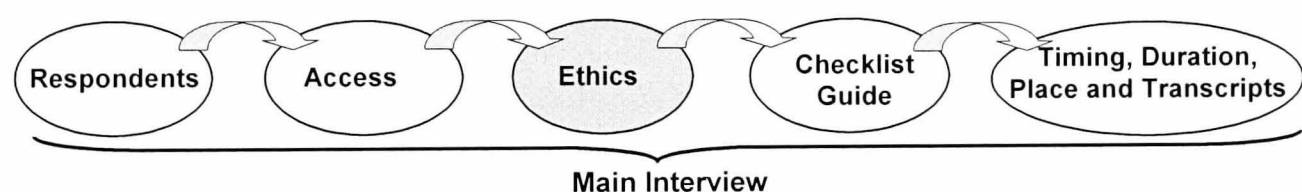
Main Interview

Ethical issues were another aspect carefully considered in this research. It is important to behave appropriately with interviewees, respecting their rights, since they are the main object of the research. (Saunders et al, 2000). Confidentiality and anonymity were assured to every interviewee (Oliver, 2004; Bryman and Bell, 2003; Saunders et al, 2000; Blaxter et al, 1996). Interviewees were asked permission before I began to record the interview and were informed that the interviews will be made anonymous and that their names will not be mentioned. Anonymity is very important in this research as a simple statement could allow the respondent to be identified. Thus, I have tried to be very careful when mentioning the responses in Chapter 6.

The principle of informed consent was followed, in which researchers have

> the obligation to ensure that before respondents agree to take part in the research, they are made fully aware of the nature of the research and of their role within it (Oliver, 2004, p.136)

Thus, information about the research was given to interviewees in all correspondence and at the beginning of each interview. The professional and intellectual level of interviewees has made things lot easier, as they normally asked me many questions about why I want to research this area and many asked for my opinion which I suggested to reserve to the end, so as to avoid influencing their views. I felt like going through a viva in many of the interviews as the respondents are very well-versed about the subject in which I am researching. Thus, I always felt satisfied after every interview.

Finally, in the interviews there was an attempt to make interviewees feel at ease and with some control over the interview (Oliver, 2004). This control was given through explaining briefly, before the interview started, how and what I am looking for: and listening to their views on why they agree or disagree on the statements given in the structured questions. It was also mentioned that they could say anything they wanted, related to the issues asked. I mentioned that my supervisors and I are the only ones who will listen to the record, and they fully understand that it is impossible for me to write or remember everything without recording the information that they share with me. Nevertheless, in my view, the most important aspect is to make interviewees feel comfortable, to let them have the questions and their marked responses beforehand, as that will allow them to have ideas and thoughts about the research focus and avoid delay in understanding the questions. These have contributed a great deal towards keeping the interviews to the planned time of one hour each – unless the interviewee was willing to give more time as they feel like they want to share more!

4.6.3.4 Interview Checklist Guide
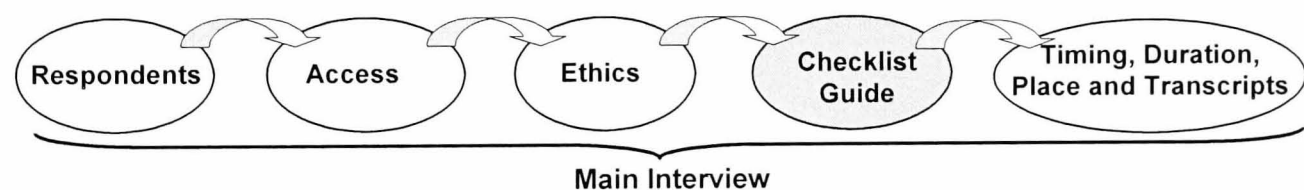
Main Interview

I considered the interviews to be semi-structured, as interviewees were allowed to express their views, and the statements worked as guidance. As Bryman and Bell (2003) have noted, semi-structured interviews usually involve a list of questions and topics to follow. Thus the structured questionnaires work as part of the checklist guide besides my knowledge of each local authority's performance and their environment (political, economical, social and demographical). The checklist guide was tested and carefully refined in the pilot study of this research. Stroh (2000) emphasised that the confidence that the interviewer has in the interview protocol guide dictates the success of the interview. In fact, the pilot study proved to

be very helpful in order to test, and improve both the checklist guide and my interview skills, with confidence being enhanced in the main interviews.

The checklist guide included the marked structured questions with areas I highlighted for probing and emphasizing. Some questions were added based on my knowledge from reviewing the performance and environment of the local authorities, such as such as the number of accounting staff, communication with other local authorities, the program they had with their local public, summary of financial results etc. Nevertheless, the argument of Clough and Nutbrown (2002) was followed in the sense of the "schedule *guided* the interview but did not *dictate* the path" (p.105). Therefore, an open mind was kept, letting the interviewees express their views without imposing preconceived ideas dictating the interview (Gummesson, 2005, p.322). The structured questionnaires work as a guide to maintain the standardized coverage of the questions asked, so that every respondent would be asked to express their views on the area.

Each interview was conducted in the way which the first question should be a general one, encouraging the respondent to give free feelings/thoughts about it (Perry, 2000). To stimulate the environment, the first question asked was about the length of time the director has been with the council to encourages him/her to explain their experience. Perry's idea was confirmed since the first questions on the interviewees' general work experience helped to create a more relaxed atmosphere. Generally, interviewees liked to talk about their jobs, what they do, sometimes being needed to "interrupt" them, giving focus to the interview research topic. In fact it must be highlighted that some important and quite unexpected findings came out precisely from the first group of "relaxing/general questions". The last question should also be prepared in order to give a sense of "closure" to the interview (Stroh, 2000). Thus, in the structured questionnaires, interviewees were asked if 'the UoR has been worthwhile innovation' and 'I would like the CPA to change as follows'. Both questions allowed respondents to conclude and justify their hope.

As explained in the section on questionnaires design, the structured-statements were developed from:

- review of the AC publications and auditors work at local authorities [research question 1, presented in Chapter 2 of this thesis];
- review of local authorities performance assessed by the auditors, published by the AC and available at local authorities [research question 2, presented in Chapter 5 of this thesis]; and
- review of academic literature which confirms issues related to the audit of local government.

Table 30 shows the checklist guide that was followed in all the 19 interviews.

Table 30: Checklist guide for interviews

<u>**Introduction (Before turning on the record)**</u> • Introduce myself • I would like to start by thanking you so much for taking the time to help me with my research • Our conversation will last approximately one hour • We will go through the answers you provided in the structured questionnaires [handed a copy of the respondents marked answers] • As I mentioned in the previous contact, this research is aimed at understanding the impact external audit and UoR assessment has had on local authorities • Do you mind if I record the session, so I don't miss anything and can concentrate on your views and our conversation; • I assure the confidentiality of your responses and the recording; • I will send you a report with the main research findings as soon as I conclude my project • Do you have any questions before we begin?
<u>**Respondent's Background (Try to be brief)**</u> I would like to begin by asking a few background questions: • How long have you been with this council? • Where were you before? • [to complete the background details: qualifications, professional body's membership]
<u>**Main Interview**</u> We will basically review based on the sections of the structured questionnaire. You are free to express your views and reasoned why you agree or disagree to statements given. • [to add other questions relevant to local authorities if not mentioned by the director and if time permits, such as: number of accounting staff, attempt to invite participation from public, publication of summary of financial performance and results etc]
<u>**Conclusion**</u> Finally, do you have any other suggestions? Thank you very much for your help in my research project. I will send you a report on my findings as soon as I conclude this research. Feel free to email me if you have any other concerns or views to share.

4.6.3.5   Timing, Duration, Place and Transcripts

Main Interview

This section discusses other aspects of the interviews: timing, duration, place and transcripts.

Nineteen interviews were held between July 2008 and December 2008 in the region of Yorkshire and The Humber. All interviews were made in English. All the interviews were carried out at the respondents' premises - office or meeting room. All interviews' lasted between one to two hours. All the interviews were recorded, according to Stroh (2000)

> tape-recorded interviews, it is suggested, provide a far more reliable record of the interview than note taking (p.209).

Moreover, taping the interview allowed the researcher to pay more attention to the interview and to focus on the interviewees' answers (Bryman and Bell, 2003; Blaxter et al, 1996). I found that the directors generally were very willing to share their views, friendly and most willing to help as much as they could with their experiences, opinions and perceptions on the

research subject. I had strong impression that interviewees seem interested to talk about the topics which are very related to their jobs, amuse them at times and they like hearing what others think of it. As one respondent from the pilot test have said (the manager for UoR), "the structured questions and the interview has made me think about the activities which I have never thought that way before". And one director said "it is always motivating when you find people are interested in your job". The interviews were then reviewed and transcribed to extract quotes from the respondents to support discussion. Clough and Nutbrown (2002) estimated that a forty-five minutes tape may take seven hours to transcribe. The structured questionnaire has helped a lot to understand the views of respondents though an immense amount of time was needed to transcribe them. It is also an advantaged that the interviewees were all spoke in very clear English during the session, and were easily understood when I transcribed.

4.7 Data Analysis

Bogdan and Biklen (1982, p.145) said data analysis involves "working with data, organising it, breaking it into manageable units, synthesizing it, searching for patterns, discovering what is important and what is to be learned, and deciding what you will tell others". Miles and Huberman (1994) note that transfer of data to index cards, coding of data, methodological notes, case summaries, charts and dummy variables are some of the techniques that can be utilised to analyse data. Nevertheless, some writers argue that the choice of technique in the data analysis is driven by research questions (McCutcheon and Meredith, 1993; Baxter and Chua, 1998; Robson, 1997), research strategies and theoretical framework (Glaser and Strauss, 1967), methods of data traditionally used in such a study, the availability and accountability of data, and the resources at the disposal of the research (Layder, 1993).

As mentioned in earlier section, this study adopts triangulation as its research method; consequently the method of data analysis employed follows the strategy of analysis separately: (i) first step - review of documentation to understand the assessment processes and review of literatures to understand issues; (ii) second step – review of published assessments done by auditors and (iii) finally – listen to the auditees' views. The first analyses were used to guide the second step, and then were integrated to inform the final data collection and analysis. Thus the findings reported were results of integration of findings and analysis as proposed by Greene et al (1989). Thus the next section explains how the data of this study were analyse and reported.

4.7.1 Analysis of Published Data

The published data were analysed statistically, these were explained in section 4.9, from 4.9.1 to 4.9.3, which includes documentation from certification audit, UoR assessment and open ended interviews. The findings are presented in Chapter 5 of this thesis which is separated into two sections of certification audit and use of resources assessments. The

analyses are based upon descriptive statistics using excel where graphs were formed to check for patterns and identify issues.

4.7.2 Analysis of Main Data Collection: Structured Questionnaires and Interviews

The structured questions prepared were close-ended statements designed for exploration during interviews. Nevertheless, as respondents marked the statements beforehand, the data received were inputted into a Statistical Package for Social Sciences (SPSS) data file. The data then were analysed using descriptive statistics to identify frequency distributions, means and standard deviations which are relevant to address research questions of this study. A rank-order of data was developed from means where possible to check for perceived order in some of the relevant questions such as to rank based on risk, chances, difficulty, and preference.

The interviews held were based on the themes from the structured questionnaires and statements. As the themes have been developed, the interviews were transcribed and used as quotations to discuss findings from fieldwork interviews in Chapter 6 of this thesis. Throughout the interviews, respondents expressed their views based on the themes and issues identified. From the 19 interviews conducted, the flow of themes and structured-statements developed in the questionnaires were helpful to discover the issues of interest. This is consistent with experienced during the three pilot tests conducted.

4.8 Reflection, Limitations and Credibility of Research Findings

The methodology of this research is common to many as it involves exploration starting with reviewing documentation, followed with triangulation through interviews and quantitative analysis of assessed performance. From the review, interviews and analysis of assessed performance, issues and themes were developed and structured statements were prepared for fieldwork interview. Thus, the structured statements and pre-determined themes proved to hem-in the discussion within focused issues and assists in exploring the issues deeper. Sending the structured statements and requesting the respondents to mark their answer choices before interview have also been very helpful to contain the meeting within promised time limits and allowing respondents to think about the issues, so they can respond clearly. At times they even provided evidence to their argument and brought their work colleagues to help explain issues which they have limited knowledge.

In this research, *credibility* was assured by having the professional and intellectually qualified respondents. Thus, this provides informed responses, not hearsay or baseless thoughts. The data were collected in various stages with triangulation which provides valuable support to the findings. Moreover, in order that other researcher could eventually

repeat this study in another context, all the research processes have been explained carefully, namely:

- the discussion of the literature review;
- the gaps found;
- the research question, aim and objectives;
- the methodological position chosen, such as type of research, philosophical paradigm, methods, approach and strategy employed;
- the research design;
- the pilot study, its aim, changes and reflection made before the main data collection;
- the implementation of the interviews in the main data collection, examining how the sample was selected, how access was achieved, the interview checklist guide followed, and aspects such as the interviews' timing, duration, place and transcripts;
- the analysis methods employed; mixed method analysis;
- the reflection process after the preliminary analysis and pilot test and some limitations found; and
- the findings emerged from data analysis are discussed in-depth in the next two chapters.

All these important stages were explained in detail in order to ensure the credibility of the research findings.

4.9 Summary

This chapter has described the methodology adopted in this study. In doing so, this chapter introduces three different research types and the four main paradigms which guide management research and explains the approach used in this study. Since the study locates itself in applied research and adopts pragmatist paradigm based on the fact that both quantitative and qualitative data were collected, a triangulation research methodology in the context of case study research design was considered both an appropriate method and strategy in investigating the questions posed in this research. The significance of deploying triangulation methodology in this study are the benefits of drawing on the strength of both deductive and inductive methods to counterbalance the weaknesses of the mono-method, thereby enhancing the robustness of the findings in this study.

Reflections and limitations of this study were also presented and how the credibility of the research findings was enhanced was explained at the end. To summarize, this chapter presented the rationale for selecting the mixed method approach, the case study research design, the preliminary data collection, analysis and triangulations, a detailed discussion of the construction of the questions for interviews, access for pilot test, main data collection and approach for analysis. The next two chapters will report and discuss the findings and analysis from two aspects of data collection. Chapter 5 presents findings from secondary data, the assessed performance published and available publicly. Chapter 6 presents findings from Phase 2 data collection which was the main interviews.

5 FINDINGS AND DISCUSSION I: LOCAL AUTHORITIES PUBLISHED PERFORMANCE
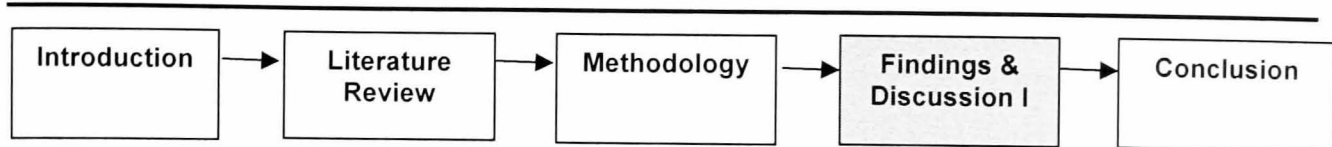
5.1 Introduction

The findings and discussion of this research will be presented in Chapter 5 and Chapter 6. Figure 28 shows the structure for these chapters which follow the sequence of the sub-research questions created to feed into the main aim of this study.
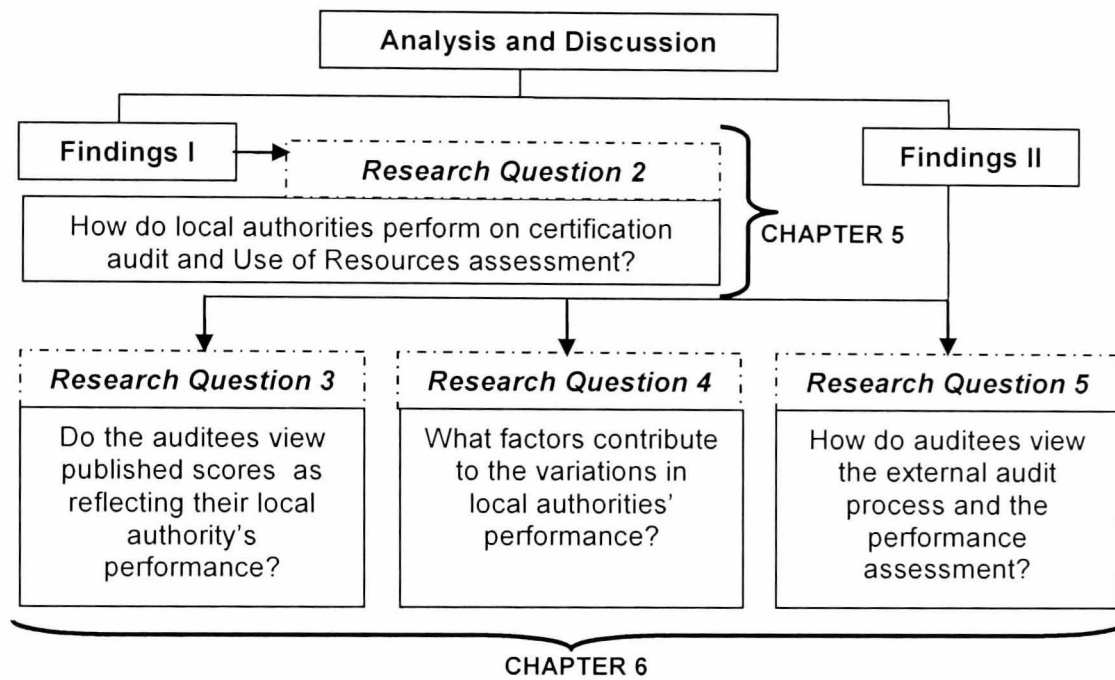
Figure 28: Flow of Analysis and Discussion for Findings

The main research question and aim of this study from which five sub-research questions were created are (repeated from Table 1, Chapter 1):

Research Question	HOW DO THE EXTERNAL AUDITING FUNCTIONS OF LOCAL AUTHORITIES IN ENGLAND AFFECT LOCAL AUTHORITIES AS AUDITEES?
Aim	To discover how the external auditing performed at local authorities in England affects local authorities as recipients of the service.

Feeding into the main aim, five sub-questions were created and answered. The first sub-question:

What are the functions of external auditors for local authorities in England?

is presented in Chapter 3 of this thesis because it serves as a foundation for this research. This chapter will provide the analysis and findings to answer the second sub-question:

How do the local authorities perform based on their auditor's assessment (certification audit and Use of Resources assessment)?

The results of the auditors' assessment of local authorities are reported separately for certification audit and UoR assessment. These data are gathered from local authorities' statement of accounts (SoA), annual audit letters and the UoR results, taken in part from the AC's published performance reports. The SoA for seven years from 2000 to 2006, annual audit letters produced by relationship managers and UoR measures published by the AC from the assessment done for 2002 to 2006 have been collected and reviewed. The results are presented in this chapter under two headings, namely, certification audit and UoR assessment.

5.2 Certification Audit

This section explores the annual SoA of local authorities in the focus region for audit certification of the SoA and the auditors' opinion. Discussion is divided into several sub-sections shown in Figure 29 below:

Discussion – Certification Audit
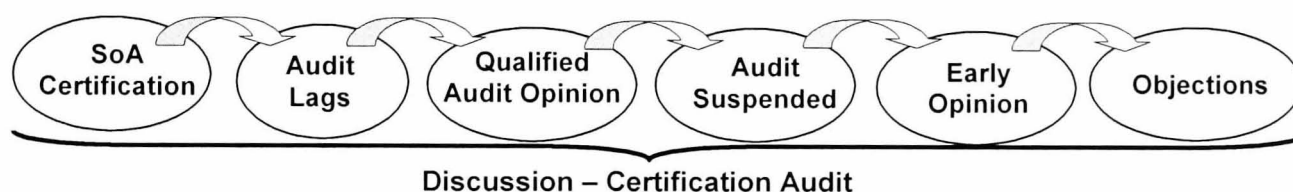
Figure 29: Flow of Discussion for Certification Audit

Local authorities have to prepare their accounts and submit them for audit using the accrual basis similar to those of the private sector.[16] Local authorities have to follow *Local Authorities Accounts and Audit Regulations 2003* and *Local Authorities Accounts and Audit Regulations (Amendment) (England) Regulations 2006* in preparing, submitting and publishing their accounts. A joint committee of CIPFA and LASAAC developed a Statement of Recommended Practice (SORP) based on the regulations above to specify the code of practice for local authority accounting in the United Kingdom. CIPFA is the Chartered Institute of Public Finance and Accountancy while LASAAC is the Local Authority (Scotland) Accounts Advisory Committee.

The accounting regulations were amended significantly in 2003 and 2006. Amendments made in 2003 were to ensure greater compliance with UK Generally Accepted Accounting Practice (UK GAAP). The 2006 amendments were to simplify and streamline the 2003 Regulations and to clarify which rules apply to which public body. The effort is to strengthen governance and accountability through new requirements (DCLG, 2006). The Regulations require local authorities to produce their SoA annually according to 'proper practices' (DCLG, 2006). The SORP has also been amended since 2002 to reflect the changes in accounting standards. The latest SORP was developed in 2007 to assist local authorities in meeting the

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[16] A number of changes have been made to the SORP to comply with UK GAAP since 2002. In 2005, the changes were smaller compared to previous years (see Stewardship and Governance Report 2005, published by Audit Commission in 2006).

challenge of earlier preparation and publication of their SoA as required by the Accounts and Audit Regulations. The AC also recognised that accounting in accordance with UK GAAP is a precondition of proper accountability for the stewardship and use of public money and defined local councils 'proper practices' as compliance with the SORP (Audit Commission, 2006b).

According to the guidance issued by the DCLG (2006), three documents have been identified as relevant to Section 21(2)(b), Regulation 31 of the Local Authorities (Capital Finance and Accounting) England) Regulations 2003 regarding 'proper practices' for local authorities accounting. The three documents are:

1. The Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice, published by the Chartered Institute of Public Finance and Accounting (CIPFA);
2. The Best Value Accounting Code of Practice, published by the CIPFA;
3. The Governance and Accountability in Local Councils in England and Wales, jointly published by NALC and the SLCC for parish councils.

<div align="right">(DCLG Circular 03/2006)</div>

The Auditing Practices Board (APB) has published 'Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (Revised)' as guidelines to audit public sector bodies. The requirement to audit the financial statements of local government in England has been provided in statute. Auditors can refer to the Audit Commission Act 1998 and Code of Audit Practice issued by the Audit Commission in carrying out their work (APB, 2006).

Table 31: Auditors for Local Authorities in the region

Year Ending 31 March ...	Private Auditors	Audited Bodies	District Auditors	Audited Bodies
2000	6	MDC, UA	16	MDC, UA, CC & DC
2001	6	MDC, UA	16	MDC, UA, CC & DC
2002	6	MDC, UA	16	MDC, UA, CC & DC
2003	6	MDC, UA	16	MDC, UA, CC & DC
2004	6	MDC, UA	16	MDC, UA, CC & DC
2005	5	MDC, UA	17	MDC, UA, CC & DC
2006	6	MDC, UA	16	MDC, UA, CC & DC

(Source: Compiled from local authorities SoA and AAL)

Table 31 shows information on the auditors involved in auditing local authorities in the Yorkshire and The Humber region. The number of private auditors involved in auditing local authorities did not change much during the seven year period. 27 percent were auditors from private firms and auditing only the Metropolitan District Council (MDC) and Unitary Authority (UA). None of the auditors from private firms performed audit for the District Councils (DC) in the region. All seven DC were audited by the same district auditor, who also audited the only County Council (CC) in the region. As the auditors are assigned based on their locality within the AC's regional management area, private audit firms that won the tender will be assigned to audit local authorities in the AC's region where they are based.

Table 32: Deadlines for Approving and Publishing Statement of Accounts

Accounting Year End 31 March ...	Approval by Council	Publication
Until 2003	30 September	31 December
2004	31 August	30 November
2005	31 July	31 October
2006 onwards	30 June	30 September

(Source: The Accounts and Audit Regulations 2003)

To improve the usefulness and timeliness of the SoA, local authorities were subject to tightening deadlines, starting from financial year ended 2004. Table 32 shows the changes in deadlines for local authorities' SoA from 2003 until 2006. The acceleration of statutory timetables has placed pressure on local authorities. Many local authorities managed to meet the deadline for submission of accounts for councillors' approval but at the expense of the quality of their submitted SoA for audit (Audit Commission, 2006e). Local authorities submitted their SoA to meet the deadlines ignoring its quality because meeting the deadlines is part of their performance indicators. To help local authorities cope with the new deadlines and producing quality SoAs, the AC works with other bodies such as CIPFA to produce guidelines for producing quality accounts and meeting the deadlines (Audit Commission, 2006e). The AC then published updated guidelines to advise local authorities on the obstacles to prompt accounts production and to suggest ways in which local authorities can overcome the obstacles (Audit Commission, 2005e). The AC also urged their appointed auditors to start their audit work earlier besides advising local authorities to speed up their accounting reports and improve their quality.

5.2.1 Certification of the Statement of Accounts

Discussion – Certification Audit
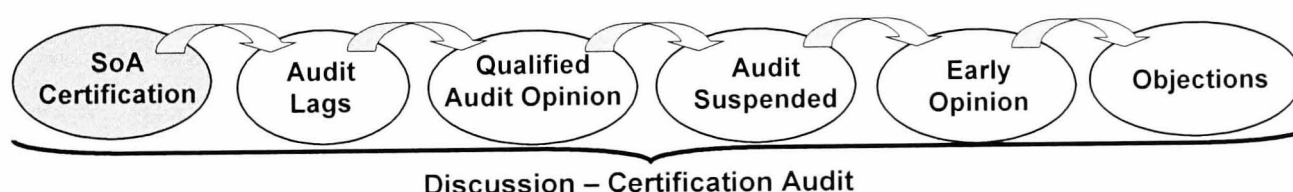
The *Accounts and Audit Regulations 2003* published dates for submission and publication of local authorities' SoAs but the deadline for audit certification was not included (refer to the statutory deadline timetable provided by The Accounts and Audit Regulations 2003 in Table 32). However, according to the Regulations, local authorities can publish their SoA immediately after they obtain certification from their auditor. A source of evidence to prove that local authorities published their annual SoA on a specific date is yet to be discovered. Based on researcher observation on the local authorities' websites, none have mentioned the date when they published their SoA. A number of local authorities have not uploaded their certified SoA on their website. Certification dates printed as on the audit report for each SoA, have been used as evidence that a local authority's annual SoA was ready for publication. However, the AC (2006e) has mentioned that 13% of local government bodies

throughout England failed to meet the statutory publication deadline of 31 October in 2005. The AC might have its own way of determining when local authorities published their SoA and where.

Table 33: Number of Authorities Failing to Meet the Deadline

Year Ending 31 March …	Statutory deadline for publication	Statutory deadline for publication (days)	Numbers failing to obtained certification by the deadline	% obtained certification by the deadlines	Authorities	Authority Type
2000	31-Dec	275	0	100%	None	None
2001	31-Dec	275	0	100%	None	None
2002	31-Dec	275	0	100%	None	None
2003	31-Dec	275	1	95.45%	North East Lincolnshire	UA
2004	30-Nov	244	6	72.73%	Kirklees, Rotherham, Wakefield North East Lincolnshire, Kingston upon Hull, Selby	MDC UA DC
2005	31-Oct	214	2	90.91%	North East Lincolnshire, Kingston Upon Hull	UA
2006	30-Sep	183	1	95.45%	Kingston Upon Hull	UA

(Source: Compiled from local authorities' SoAs)

Table 33 shows the number of local authorities in the region failing to meet the annual deadlines required for their SoA. The dates printed on local authorities' annual audit certificate have been compared to the statutory publication deadlines. The statutory publication deadline was 31 December from 2000 to 2003. In 2004, the deadline was shortened to 30 November and further to 31 October and 30 September in 2005 and 2006. All local authorities in the region managed to get their SoA certified before the statutory deadline for publication for financial year ended 2000 until 2002.

When new accounting regulations were introduced in 2003, North East Lincolnshire (UA) failed to get their SoA certified before the deadline due to a significant error in their accounting treatment. The other 21 local authorities managed to obtain certification prior to the deadline. Further additions to accounting regulations have been introduced in 2004 and the statutory deadline was shortened. This has put pressure on local authorities to respond to the new accounting regulations and at the same time earlier publication of the SoA which resulted in six local authorities failing to meet the publication deadline. Only 16 local authorities met the statutory publication deadline in 2004.

During the second year of tightening deadlines, in 2005, 20 local authorities obtained audit certification prior to the deadline of 31 October. In 2006, 21 local authorities obtained audit certification prior to the publication deadline of 183 days. No new accounting regulations were introduced in 2005 and 2006 and this could be a reason for the better achievement in terms of meeting the publication deadlines during these years. Both North East Lincolnshire

and Kingston upon Hull obtained a qualified opinion in their auditors' report in 2005 and 2007 respectively. While North East Lincolnshire started to have problems from 2003, Kingston upon Hull was affected from 2004 when additional new accounting regulations were introduced.[17] An SoA obtaining a qualified audit opinion normally takes a longer time to obtain certification, causing delay in publication.

Performance in terms of SoA certification for the 22 local authorities in the region is relatively similar except for two councils having trouble with their accounting treatments. Although the region consists of several DC which have less resources and expertise compared to the single tier and county councils (STCC), the DCs' performance in terms of statutory compliance does not differ from that of the other local authorities. A possible explanation could be that the nature of the preparation of financial accounts is technical and fairly objective. Once the system of recording and reporting is in place, local authorities have to maintain and update their systems with new rules and regulations. The first challenge for them is to have a proper system of recording and reporting. Having skilled accounting staff and less complex activities could help local authorities to comply with regulations and have their accounts ready faster. The STCC could have more resources to hire skilled accounting staff and the DC could have the advantage of less complex activities.

Changes in the SORP will affect local authorities' ability to submit quality accounts to their auditor on time. The AC recognised that the increased complexity in the SORP since 2003 had caused a deterioration in the quality of accounts submitted for approval and thus delays in getting certification (Audit Commission, 2006e). However, when the quality of submitted accounts did not improve even though fewer changes were made to SORP in 2005, the AC assumed that local authorities had not taken an adequate level of care in the preparation of their accounts and that there had been an inappropriate level of review by senior management prior to approval by councillors (Audit Commission, 2006e). The AC has encouraged and helped local authorities to establish arrangements for their accounting through guidelines and advice. The AC also urged auditors to start their audit work earlier on aspects that do not need completion of accounts. These factors may have helped local authorities to improve their arrangements.

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[17] North East Lincolnshire obtained audit certification for their 2003, 2004 and 2005 SoA in December 2005, where all were qualified. The council's 2005 SoA was qualified because of the 2004 comparative figures. Kingston upon Hull also experienced delay in their 2005 SoA certification which resulted to qualified opinion issued by the auditor in 2007 for both 2005 and 2006 SoA. The council's 2006 SoA obtained a qualified opinion also because of the 2005 comparative figures. As North East Lincolnshire obtained unqualified opinion in 2006 because the old figures had disappeared, Kingston upon Hull too obtained unqualified certification for its 2007 SoA.

5.2.2 Audit Lags

Discussion – Certification Audit
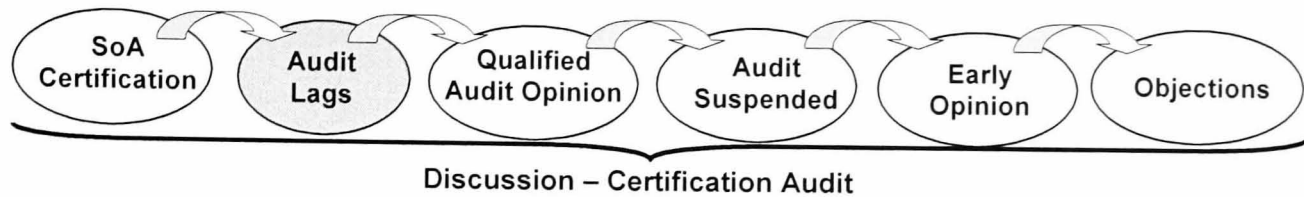
Observation on the 22 local authorities' individual performance in terms of compliance, time taken to obtain certification before the statutory deadlines for publication of their SoA and audit opinion for the seven years does not reveal any obvious differences between them. The DCs' performance does not differ from the STCCs. SoA performance analysis of the MDCs, the UAs, and the CC also does not reveal much variation. Audit lag for annual publication of SoAs have been calculated to check for patterns of SoA publication among councils in the region. Table 34 shows information on the audit lag.

Table 34: Audit Lags (in days) in the Yorkshire and The Humber GOR

Year Ending 31 March ...	Statutory publication deadlines in days	Fastest SoA (LA Type)	Slowest Unqualified SoA (LA Type)	Range (without qualified opinion)	Mean (without qualified opinion)	Qualified SoA
2000	275	206 (DC)	266 (MDC)	60	243	None
2001	275	184 (MDC)	265 (MDC)	81	245	None
2002	275	233 (MDC)	604 (MDC)	371	279	None
2003	275	226 (MDC)	392 (MDC)	772(166)	301(268)	NEL-998 (UA)
2004	244	189 (MDC)	288 (MDC)	443(99)	254(236)	NEL-632 (UA)
2005	214	160 (UA)	214 (MDC,DC)	483(54)	227(204)	NEL-267 (UA) KUH-643 (UA)
2006	183	175 (UA)	182 (MDC, DC)	103(7)	185(181)	KUH-278 (UA)

Note: The range and mean were calculated separately with and without qualified SoA. Figures in bracket for columns five and six show the range and mean calculated inclusive of qualified SoA. The last column shows days taken by North East Lincolnshire (NEL) and Kingston upon Hull (KUH) to obtained certification from their auditors.

Audit lags were calculated in days for every local authority in the region. The ranges are calculated by comparing the fastest and the slowest local authorities in terms of days taken to obtain certification for their SoA. The range and mean for audit lags are calculated with and without unqualified audit opinions to avoid the irregular figures from qualified SoA tampering the range and mean values for majority of local authorities in the region. Audit lags for qualified opinions were longer, as shown in the seventh column, and including them in the mean and range produces higher figures.

In this government region, only two local authorities obtained a qualified audit opinion during the period studied. The range calculated for all 22 local councils in the region was 772 in 2003 because North East Lincolnshire failed to get their 2003 SoA certified until 2005. The range is again high in 2005, 483 days, when Kingston upon Hull was having difficulties with their SoA. The council's SoAs for 2005 and 2006 have been certified in January 2007,

resulting in a lower range for 2006. In 2007 all local authorities obtained unqualified audit opinion and published their audited SoA prior to the deadline.

The mean and range without the two councils with qualified opinions is obviously better as shown in column five and six. The normal cause of local authorities' delay in getting their SoA certified is because of their failure to comply[18] with the SORP or particular FRSs, which requires their SoA to be resubmitted for councillors' approval after a number of amendments (Audit Commission, 2006e). On average local authorities in the region obtained audit certification before statutory deadlines for publication every year except for 2002 where Rotherham (MDC) took 604 days to obtain certification. This has produced a longer mean for that year. Other than that, local councils in the government region met the statutory deadlines every year even though the deadlines were tightening. The range of days taken by local councils to obtain audit certification also increased in 2002 before levelling to a lower variation in later years. Changes in SORP requirements could have been the cause of the increase in ranges, as mentioned earlier in this section (Audit Commission, 2006e).

The best achievement for local councils' in the region in terms of speed of publication their SoA was in 2006, the last year included in analysis for this study. All 21 councils (except Kingston upon Hull) obtained certification from their auditor with an unqualified opinion within 175 to 182 days. The range shows that there is not much different in terms of audit lags among the 21(95%) local councils in the region for the year. During the year, all local councils in the region uploaded their unaudited 2006 SoA (for public inspection) on their local website from August 2006 and their audited 2006 SoA from late September 2006. By the end of November 2006, all local authorities in the region had published their 2005/06 audited SoA on their local website.[19]

Table 35: Audit Opinion

Year Ending 31 March...	2000	2001	2002	2003	2004	2005	2006
Unqualified SoA	22	22	22	21	21	20	21
Qualified SoA	0	0	0	1	1	2	1

Table 35 summarised the audit opinion obtained by the 22 local authorities from 2000 to 2006. Only two authorities have had issues during the years analysed; explanation on these two local authorities, North East Lincolnshire and Kingston upon Hull, will be provided in the following sections. Other local authorities in the region obtained an unqualified opinion from their auditors. From the information gathered through their minutes of meeting to approve the accounts, local authorities normally consider and follow their auditor's suggestions and amend their SoA accordingly to obtain an unqualified opinion. As for North East Lincolnshire,

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[18]Local authorities have to resubmit their accounts for councillors approval due to failure to comply with the accounting and disclosure requirements of the Code of Practice on Local Authority Accounting – Statement of Recommended Practice (SORP), (which have become more complex in recent years) or relevant financial reporting standards (FRSs)

[19] I browsed all the 22 local authorities' websites regularly during August-November 2006.

the problems with their accounting treatment were tremendous and cannot be resolved within their own expertise. Kingston upon Hull failed to provide sufficient evidence and audit work was suspended in 2005 when their auditor issued a public notice to draw the attention of local electors to material errors found in the authority's SoA.

5.2.3 North East Lincolnshire – Qualified Audit Opinion

Discussion – Certification Audit
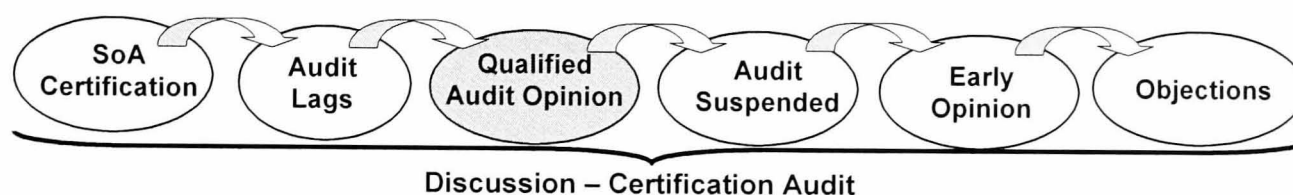
Table 36 reports information on North East Lincolnshire. The council failed to complete their SoA for the financial year ending 31 March 2003 until a consultant was hired in summer 2004 to help them with their accounts.[20] Consequently, both SoA for financial years ending 2003 and 2004 were submitted for Council's approval on the 9th December 2004. The 2002/03 SoA had been presented to the Final Accounts Committee meeting on the 17th December 2003 but was not approved due to 'significant issues of quantity and fundamental errors'[21] in the accounts (NEL, FAC minutes of meeting, 16th Dec 2004).

Table 36: North East Lincolnshire – Qualified Audit Opinion

Authority	LA Type	Information	SOA 2002/03	SOA 2003/04	SOA 2004/05
North East Lincolnshire	UA	Auditor	District	District	District
		Cert. date	23.12.05	23.12.05	23.12.05
		Audit Lag	**998**	**632**	**267**
		Opinion	23.12.05	23.12.05	23.12.05
		Causes	Accounting Error	Accounting Error	Comparative figures from 2004 SoA
		Impact	Qualified Audit Report	Qualified Audit Report	Qualified Audit Report

Due to the error, their 2002/03 SoA could not be closed, and the auditor issued a "Public Interest Report", using their power under SAS 610, to the local authority in 2004. The local authority was required to make changes to their 2002/03 accounts based on the auditor's comments in their 'Public Interest Report'. A consulting firm was engaged in summer 2004 to resolve the complexities in accounting treatment which resulted in the completion of both 2003 and 2004 SoAs and approval by their final accounts committee in December 2004.

The auditor then issued their opinion for both SoAs in 2005, giving a qualified opinion because the local authority did not fully respond to all matters in the auditor's public notice.

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[20] Information obtained from Minutes of Meeting, Final Accounts Committee, North East Lincolnshire on the 9th December 2004. The minutes were submitted to the Council at Council's meeting on the 16th December 2004.
[21] The terms borrowed from the Final Accounts Committee minutes are italicised throughout discussions in this document.

The 'qualified' opinion was given based on *"limitations of scope"*.[22] The District Auditor responsible for auditing the local authority's account explained that the situation with regards to the local authority's SoA for 2002/03 and 2003/04 *'was very serious'*. A disclaimer of opinion had to be issued due to the limitation of evidence available because of *'fundamental weaknesses within the Council's financial management arrangements'*. In 2005, North East Lincolnshire obtained their certification in 267 days compared to 632 days for 2004 and 998 days for 2003. However, the 2005 SoA was also qualified due to the 2004 figures that appear in their comparative statements. After the complexities in accounting treatment has been resolved and the unreliable figures no longer appeared as comparatives in annual SoA, North East Lincolnshire council finally obtained an unqualified opinion in 2005 before the statutory deadline.

5.2.4 Kingston upon Hull –Audit Suspended, Qualified Opinion

Discussion – Certification Audit
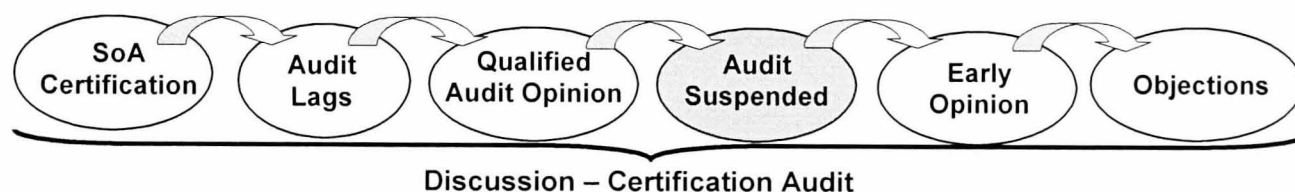
Table 37 presents information on Kingston upon Hull. Although their 2005 and 2006 accounts were submitted by the submission deadline, the local authority started to have difficulties since their 2005 SoA. The auditor was unable to form an opinion due to insufficient evidence.

Table 37: Kingston Upon Hull – Audit Suspended and Qualified SoA

Authority	LA Type	Information	SOA 2003/04	SOA 2004/05	SOA 2005/06
Kingston-upon-Hull	UA	Auditor	District	District	District
		Cert. date	30.11.04	03.01.07	03.01.07
		Audit Lag	**267**	**643**	**278**
		Opinion	30.11.04	03.01.07	03.01.07
		Causes		Accounting Error- auditor suspended audit work on 09.11.05 and issued public notice	Comparative figures from 2005 SoA
		Impact		Qualified Audit Report	Qualified Audit Report

Their auditor then suspended audit work in November 2005 and issued a public notice[23] in 2005 regarding grant claim procedures and its documentation. The Council has to respond to the auditor publicly regarding the error. The issue was not yet resolved even after the

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[22] Quoted from Final Accounts Committee minutes of meeting on the 13th May 2005, submitted for Council's approval at its meeting on the 14th July 2005.
[23] Section 8, Audit Commission Act 1998 requires auditors to consider whether, in the public interest, they should report on any matter coming to their notice.

2006 SoA deadline in September 2006.[24] By October 2006, Kingston upon Hull council had identified several areas of weakness that resulted from issues raised by the auditor: among others, limited resources, staff failures and poor internal control to review the grants and subsidy claims before submission. The council only obtained certification from their auditor in January 2007 for both the 2005 and 2006 SoAs. Both SoAs were qualified; 2005 due to insufficient evidence and 2006 due to comparative figures from 2005. Kingston upon Hull obtained unqualified audit opinion certification in 2007, having avoided the comparative figures from 2005 SoA.

5.2.5 Opinion Prior to Audit Completion

Discussion – Certification Audit
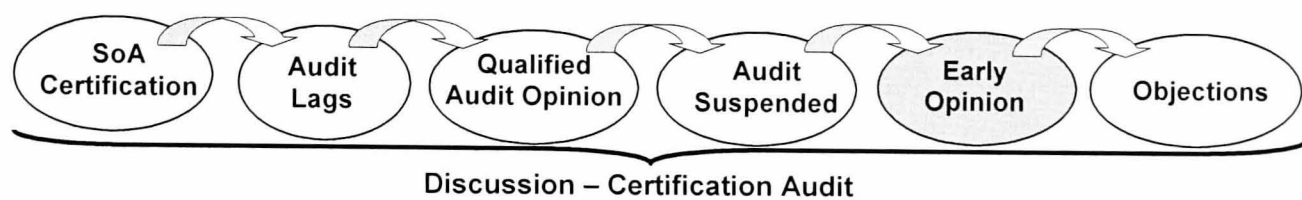
Auditors sometimes issue their opinion prior to audit completion when they are satisfied that the documents they await will not affect the fairness of statement of accounts presented by the local authority. The authority can publish their statement of accounts with the auditor's opinion (informal certification) and change it later when they have received formal certification. Table 38 shows information on Bradford MDC whose auditor issued an audit opinion earlier than formal certification.

Table 38: Opinion Prior to Audit Completion

Authority	Information	SOA 1999/00	SOA 2000/01	SOA 2001/02	SOA 2002/03	SOA 2003/04	SOA 2004/05
Bradford MDC	Auditor	Private	Private	Private	Private	Private	Private
	Cert. date	25.10.00	01.10.01	22.11.02	20.11.03	06.10.04	29.03.06
	Audit Lag	**208**	**184**	**236**	**234**	**189**	**214**
	Opinion	25.10.00	01.10.01	22.11.02	20.11.03	06.10.04	31.10.05
	Causes						Audit work on asset manage-ment project is not yet complete at 31.10.05
	Impact						UQ opinion

The auditor can issue their opinion once they are satisfied with the local authority's SoA. The local authority had not submitted documents relating to their asset management project when their auditor issued an unqualified opinion on the 31st October 2005 (to meet the deadline for publication of SoA). When issuing their opinion, the auditor confirmed that the

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[24] Information obtained from their Financial Management and Audit Overview and Scrutiny Commission report numbered CF/2006/37, attached in minutes of meeting dated 16 October 2006

documents they are waiting for will not affect MDC's SoA and it is just part of their audit process. Their auditor later issued a formal certification on 23rd March 2006 when they had received all the documents.

5.2.5 Objections to the Statement of Accounts by Local Electors

Discussion – Certification Audit
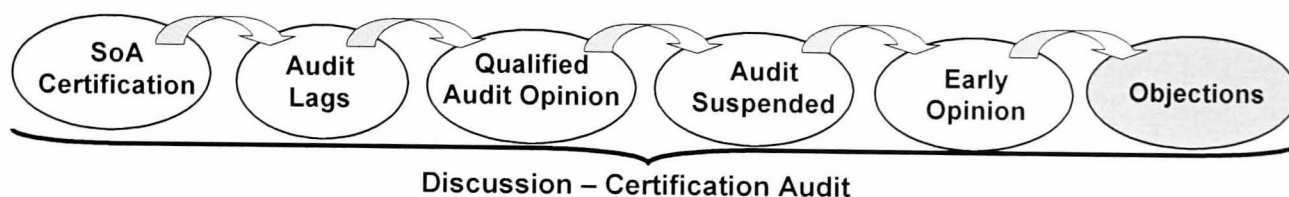
Besides new accounting regulations, tightening deadlines and qualified accounts, a local elector's objection the local authority's SoA could also cause delay in audit certification and SoA publication. Several local authorities in the region have experienced objections from their local electors in recent years. Many have been resolved before the publication deadlines but some lasted longer. Table 39 shows information on local authorities having local elector's objections to their SoAs taking them beyond the publication deadlines to be resolved.

Table 39: Local Electors Objection

Authority	LA Type	Information	SOA 1999/00	SOA 2000/01	SOA 2001/02	SOA 2002/03	SOA 2003/04	SOA 2004/05
Doncaster	MDC	Auditor	District	District	District	District	District	District
		Cert. date	14.02.05	14.02.05	14.02.05	14.02.05	17.02.05	31.10.05
		Audit Lag	**265**	**263**	**1051**	**261**	**244**	**214**
		Opinion	21.12.00	19.12.01	18.12.02	17.12.03	30.11.04	31.10.05
		Causes	Local elector's objection	Local elector's objection	Local elector's objection	Local elector's objection	Local elector's objection	
		Impact	UQ opinion	UQ opinion	UQ opinion	UQ opinion	UQ opinion	UQ opinion
Sheffield	MDC	Auditor	Private	Private	Private	Private	Private	Private
		Cert. date	27.11.00	30.11.01	13.12.02	18.12.03	27.10.04	31.10.05
		Audit Lag	**241**	**244**	**257**	**262**	**210**	**214**
		Opinion	27.11.00	30.11.01	13.12.02	18.12.03	27.10.04	31.10.05
		Causes	Local elector's objection	Local elector's objection	Local elector's objection			
		Impact	UQ opinion	UQ opinion	UQ opinion	UQ opinion	UQ opinion	UQ opinion

Shaded areas show the duration of the objection until the auditors issue their certification. When local electors submit their formal objection to the council's SoA, the auditor will look into the matter and decide whether the objection is appropriate and ask the council to investigate and decide on the matter. The auditor can reject the objection if it is considered not appropriate. Although the auditor may be satisfied with the council's SoA, a formal certificate cannot be issued until the objection has been heard and decided. This will cause a delay in publishing the final accounts. To help council publish their accounts faster, the auditor can prepare a substitute to the audit opinion.

The auditor normally writes a report in the SoA every year to confirm that the SoA presents fairly the state of financial affairs of the local authority and to mention that the official certificate cannot be issued until the objection has been resolved, as well as explaining the nature of the objection received. The council then publish their SoA once the auditor issues their opinion without waiting for the decision on the objections. They will later issue another formal certificate after the objection has been heard and decided. Formal certification may take years; which without the conditional auditor's report their SoA would become useless. In this case, the date when the auditor issue their opinion on the SoA and the certification date will be different.[25] Out of the 22 local authorities, two local authorities have experienced prolonged objections by their local electors during the period studied.

Doncaster MDC and Sheffield MDC both experienced various queries and objections to their annual accounts from local electors, where some have been either answered or rejected by their auditors. However, for Doncaster MDC, two objections have been investigated for about five years. The objections were regarding the propriety of the Council's award of grants to the Yorkshire Compensation Recovery Service[26] and the Council's application of discretion in relation to some early retirements agreed upon in 1998.[27] The authority had to take legal advice regarding the matter and the issue was finally decided in 2005. Among the various objections received and dealt with by Sheffield MDC's auditor, KPMG, one has resulted in a formal objection, started in 2000 (KPMG, 2000). The issue regarding the disposal of residential homes for the elderly to Sheffcare in 1994 has resulted in a formal objection to the council's accounts.

> The objection was made on several bases; the original transfer was not within the Authority's legal powers, making the items in the accounts relating to grant paid (in 1999/2000 this was approximately £1.1m) to Sheffcare ultra vires; the Authority's actions in providing grant aid to Sheffcare contravene the new Competition Act, which came into force during 2000; the Authority operates a differential fee structure in respect of fees for the Authority's own homes and those external to the Authority. This is linked to a number of closures of private homes in Sheffield and, as a result, the Authority is failing to ensure choice of accommodation as it is required to do under the National Assistance Act 1948.
>
> [KPMG in the Sheffield City Council Management Letter 2000]

Sheffield MDC took legal advice on the transfer and formally consulted with the Secretary of State for the Environment who gave formal approval for the transfer and the associated financial arrangements. The objection has lead to a lengthy legal process lasting for three years (KPMG LLP 2000, 2001, 2003).[28]

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[25] Doncaster provided the formal certification for their SoA but Sheffield did not.
[26] The YCRS established in 1996 to help ex-miners claim for injuries and loss of earnings had first came under scrutiny in 2000. (http://www.doncastertoday.co.uk/viewarticle2.aspx?sectionid=786&articleid=375218, visited 01/01/07)
[27] The objection raised concerns whether the Council took into account all relevant factors when deciding on the early retirements agreed as part of the restructure that started in 1998.
[28] There is no public information as to how the objection has been resolved.

5.2.7 Discussion of Findings on Certification Audit

The 7-years' analysis on local authorities' accounts show that local authorities in the region were able to respond and meet the requirements for their SoA. The majority of local authorities obtained an unqualified audit opinion except for two local authorities. A SoA subject to a qualified audit opinion normally takes longer to obtain certification from auditors and thus delays publication. Two local authorities obtained qualified audit opinions when new accounting regulations were introduced. The local authorities managed to resolve these problems after one or two years. Of the two councils, one had their 2006 SoA unqualified the other obtained an unqualified audit opinion in 2007. No major issue was observed in terms of audit opinion.

Investigation into the time required by each local authority to publish their annual SoA revealed several causes of delay. The tightening deadlines introduced from 2004 forced local authorities to change their annual SoA timetable. Local authorities which published their SoA within the previous year's time scale will not met the current year's statutory deadlines. The analysis revealed that local authorities have not had problems in responding to the tightening deadlines even during the year when the allowed time scale was only 183 days in 2006. However, local authorities require extra time responding to new accounting regulations. The new regulations which were introduced gradually since 2002 have not caused delays for local authorities in obtaining certification. The tightening deadlines also have not caused problems for local authorities in obtaining timely audit certification. However when the new regulations were introduced together with the tightened deadlines in 2004, some local authorities failed to obtain certification on time. Tightening deadlines in 2005 had not caused delays in SoA publication as there was no change to the accounting regulations. The new accounting regulations have made local authorities accounts comparable to the private sectors and tightening publication deadlines have made the SoA more timely, which enhanced usefulness. Local authorities were also found to respond well to both the new accounting regulations and the tightening deadlines but the quality of their annual SoA has been declining. Local authorities were found to have attempted to meet the submission and publication deadlines at the expense of its quality. Their submitted SoA had to go through several resubmissions for approval due to lacking in quality and care.

Analysis also reveals that auditors issued a substitute opinion prior to formal certification allowing local authorities to publish their SoA on time. This happened in cases where the auditors had been satisfied with a local authority's SoA but objection from local electors have not been heard and decided before the statutory publication deadlines. Local councils had published their SoA with the substitute opinion from their auditor prior to the statutory deadlines. Once the objection has been heard and decided, the auditor will issue another formal certification for the local authority. The formal certification is then used to update council's SoA published earlier.

5.3 Use of Resources Assessment

This section explores the AC's published results for auditors' assessment of the UoR at local authorities in England, focusing on the 22 local authorities in the Yorkshire and The Humber region. Overall UoR scores will be presented first, followed by scoring for each theme under the UoR. The CPA scores will also be shared as well as a brief comparison of the scored performance for the focused region and other regions in England. Discussion for this section is organised as shown in Figure 30:

Discussion – Use of Resources Assessment
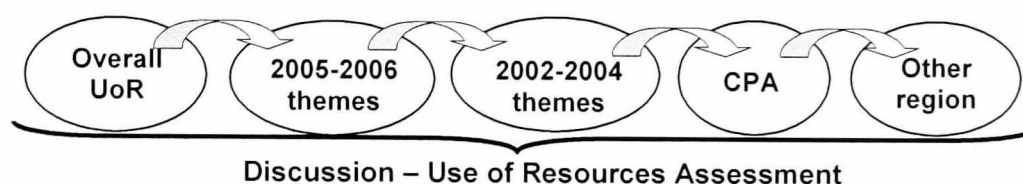
Figure 30: Flow of Discussion for Use of Resources Assessment

Use of Resources (UoR) is one component in the CPA regime which assesses how well a local authority manages its finances and delivers VFM. The assessment is conducted on annual basis at all local authorities by the AC's appointed auditor. Auditors' work for local authorities is governed by the Code of Audit Practice prepared by the AC. The annual audit is carried out based on the Code, to avoid duplication or unnecessary additional work. The Code provides information for auditors in delivering the audit of financial statements, reviewing the UoR and reporting the results of audit work and principles relating to the exercise of specific powers and the duties of local government auditors. Several statutes such as s5(1)(e), s7(1) Local Government Act 1999 specify auditors' responsibility in relation to UoR. However, under the Code of Audit Practice 2005, the audited body also has the responsibility to establish arrangements for internal control systems such as corporate performance management and financial management. Auditors will review the required arrangements and outcomes and report their findings based on both where available. More explanation on the UoR is available in Chapter 3.

Performance results published by the Commission since 2002 have been collected and reviewed. Only results for 22 local authorities in the region will be analysed in detail because this study intends to focus on the region only. Thus, the next section starts with overall UoR scores.

5.3.1 Overall Use of Resources Assessment Scores

Discussion – Use of Resources Assessment
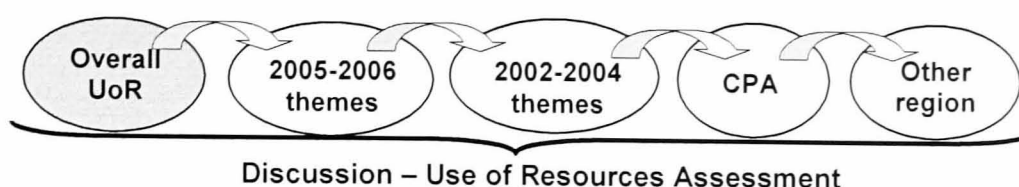
This section discusses the overall UoR assessment scores, focusing on Yorkshire and The Humber region and uses the whole of England data to support analysis. UoR assessment was different for 2002-2004, which comes within *'CPA –the original'* version, while 2005-2006 comes with *'CPA –the harder test'* version. Table 38 shows information on the overall UoR scores for the region from 2002 to 2006. A separator was created between scores for 2002-2004 and 2005-2006 to differentiate the two assessment systems.

Table 40: UoR's Assessment Scores from 2002-2006

Local Councils	Type	2002	2003	2004	2005	2006
Barnsley	MDC	3	3	4	3	3
Bradford	MDC	3	4	4	2	2
Calderdale	MDC	3	4	4	3	3
Doncaster	MDC	3	3	3	2	2
Kirklees	MDC	3	3	4	3	3
Leeds	MDC	3	4	4	3	3
Rotherham	MDC	3	3	4	3	4
Sheffield	MDC	3	4	4	3	3
Wakefield	MDC	3	4	4	2	2
East Riding of Yorkshire	UA	3	4	4	4	4
Kingston-upon-Hull	UA	1	2	3	2	2
North East Lincolnshire	UA	2	3	2	1	2
North Lincolnshire	UA	3	4	4	3	3
York	UA	3	3	3	3	2
North Yorkshire	CC	3	4	4	3	3
Craven	DC				2	3
Hambleton	DC				3	3
Harrogate	DC				2	3
Richmondshire	DC				2	2
Ryedale	DC				2	2
Scarborough	DC				2	3
Selby	DC				2	3

From Table 40, the UoR score for all 15 STCC either improved or remained constant from the second year of assessment (2003) until the third assessment (2004) except for North East Lincolnshire. Local authorities obtaining the highest score, 4, in 2003 maintained the score for 2004 assessment. Eleven local authorities out of 15 scored 4 in 2004. North East Lincolnshire (UA) improved from 2002 to 2003 but dropped back to 2 in 2004. The DCs were not assessed in 2002 and 2003, and the overall UoR was not scored when the assessment had been done in 2004.[29]

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[29] The Commission published UoR themes' score for the district councils in 2004 but the overall UoR has not been scored.

In 2005, of 15 STCC, only two authorities, both UAs (East Riding of Yorkshire at 4 and York, 3), maintained their scores. The DC's achievement was poorer compared to STCC. Only one DC scored 3 and a majority of others scored 2. Lesser variations are seen among the DC in both years. The assessment result shows improvement for some local authorities in 2006 but at a lower rate to improvements exhibited under *'CPA –the original'* system, 2002-2004. Unlike *'CPA –the original'*, some local authorities experienced a drop in their score with 'the harder test'. Table 40 also shows 10 local authorities improved their scores in the second year the UoR assessment was done, 2003. After the third assessment in 2004, 13 local authorities had shown improvement, unfortunately for North East Lincolnshire to have their UoR scored down in 2004 after showing improvement in 2003. Two local authorities maintained at the same score from 2002 to 2004.
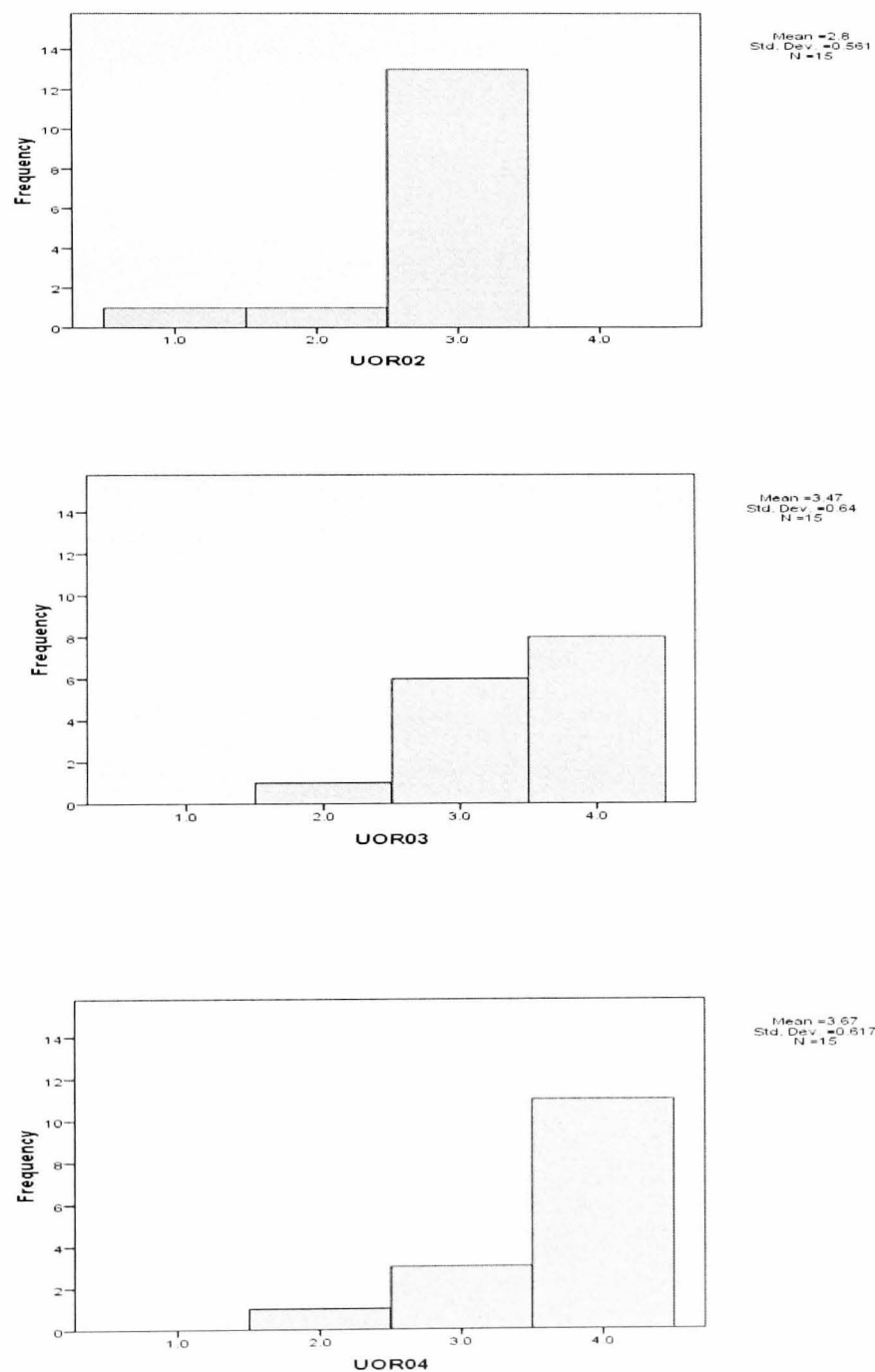
Figure 31: Distribution for UoR scores in 2002-2004, for single tier and county councils

Figure 31 above demonstrates the distribution for the 3-years' UoR scores for all the local authorities in the region. The figure indicates the cluster of scores for local authorities increased on the UoR scale. Not a single local authority scored a 4 in 2002 to a majority of local authorities scoring a 3 in 2003 and 4 in 2004. This established the trend of increase in scores since the first assessment year to the third year.

'CPA –the harder test' was implemented in 2005 and the DCs' involvement started in that year. Although 11 authorities (73 percent) obtained 4 during the third year of UoR under 'CPA –the original' regime, in 2005 only one authority maintained that score. The scoring in 2005 seems to have been restarted at a new lower level compared to 2004. More authorities scored 2 in the first year of 'the harder test' (2005), compared to 'the original' system. Fewer authorities achieved 4 in the second year unlike the 2002-2004 system where 8 out of 15 single tier and county councils obtained 4 in the second assessment year. The scores were also clustered at 2 for the DC in 2005, only one reached 3.

More improvement is evident for authorities scoring 1 and 2 in 2005, perhaps indicating the ease of movement from level 1 to 2 and 2 to 3. However, the majority of authorities that scored 3 in 2005 maintained the score in 2006, except for Rotherham which improved to 4 and York which dropped to 2. This indicates the relative difficulty of movement from 3 to 4 and the risk to a rating if a local authority is at a borderline position. The AC claimed that the assessment has not been made more difficult in 2006 compared to 2005, except for changes in wording of the KLoEs to make them clearer (Audit Commission, 2006e).

The 'the harder test' implemented in 2005 caused UoR scores to restart at a lower value. Although the AC claimed that scores from the two assessment systems are not comparable, the new system should be able to place good performers from the previous system among the top scorers in the new system because both systems measure similar aspects. Both STCC and DC were subject to the same UoR assessment system from 2005 and the AC published all the assessment results. The DC did not have experience being assessed fully under 'the original' system, unlike the STCC, so the UoR assessment regime was new to them. The DC improvement from 2005 to 2006 imitated the pattern of STCC improvement in their second assessment year.
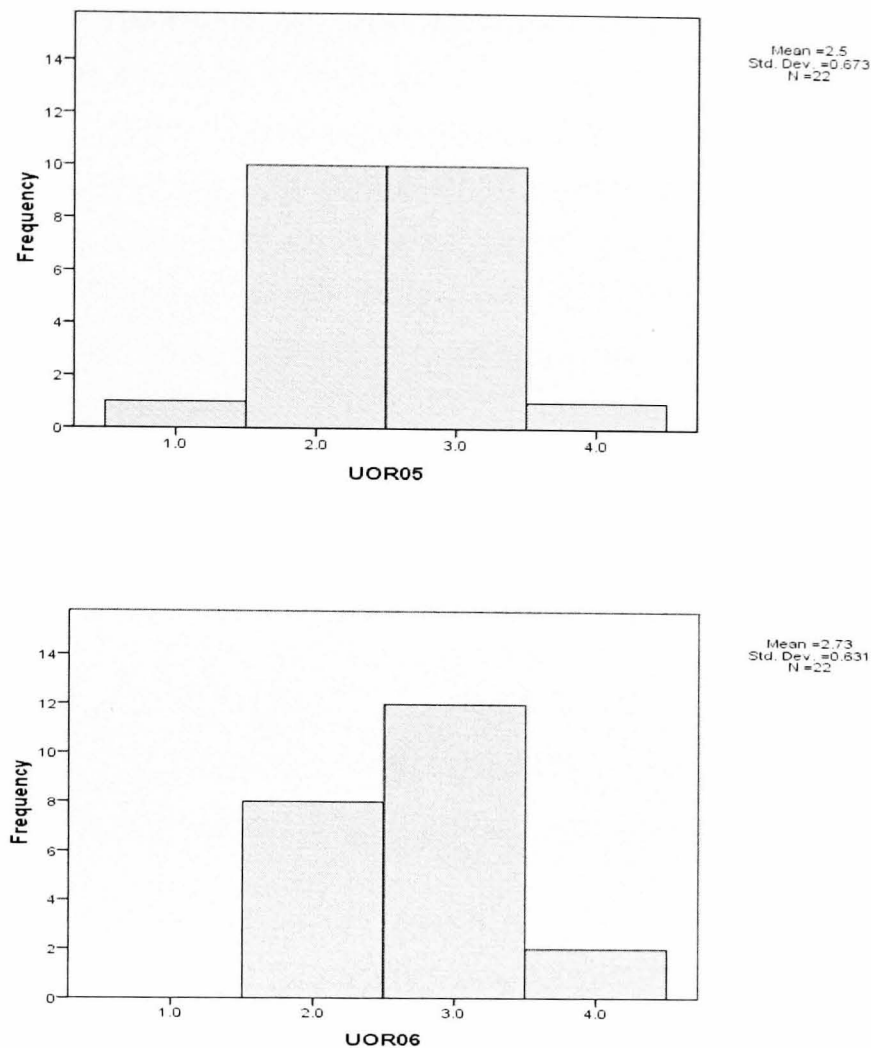
Figure 32: Distribution for the UoR scores in 2005 and 2006

Figure 32 illustrates the distribution for UoR scores in 2005 and 2006. The majority of local authorities clustered at higher scores in 2006 compared to 2005. A similar pattern of improvement in scoring to the original UoR assessment in 2002-2004 is demonstrated, although the rate of improvement in scores was not as big as with the original CPA.

Table 41: Yorkshire and The Humber: Mean Score for Overall UoR Performance 2002-2006

Mean Score for Yorkshire and The Humber Region	2002	2003	2004	2005	2006
Single Tier and County Councils	2.80	3.47	3.67	2.67	2.73
District Councils				2.14	2.71
All councils	2.80	3.47	3.67	2.50	2.73

Table 41 shows the overall UoR mean scores for the region from 2002 to 2006. The mean score for the STCC had increased from 2.80 in 2002 to 3.47 in 2003 and 3.67 in 2004. However in 2005, the mean score was only 2.67, reflecting the impact *'the harder test'* has had on local councils' UoR assessments. *'The harder test'* covers more aspects of assessment than *'the original'* system. The STCC's mean score increased slightly in 2006,

the second year of *'the harder test'*. In general, the mean score for STCC show a big improvement from 2002 to 2003, and the change became lesser from 2003 to 2004, so as from 2005 to 2006. The DC's mean score was only 2.14 in 2005 but it improved to 2.71 in 2006 to be closer to the mean score for the STCC. Separate mean scores were calculated for the DC and the STCC to demonstrate the generally lower scores for the DC and this reduces the *'all councils'* mean score. The STCC which has been assessed for their fourth and fifth year in 2005 and 2006 did not show much improvement probably because higher scores are more difficult to reach with the new system or because of the subjective nature of level 4 in KLoEs has made it difficult for local authorities to define what is required from them.

5.3.2 UoR Themes Scores 2005-2006

Discussion – Use of Resources Assessment
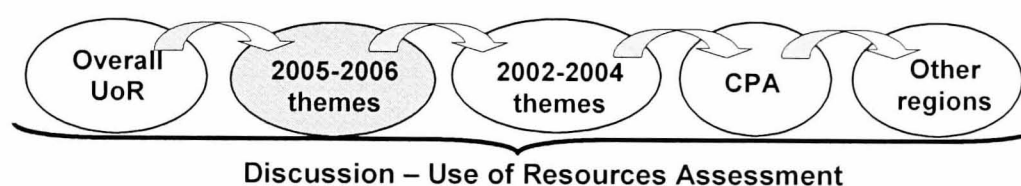
Discussion in this section will focus on UoR theme scores under the harder test, 2005 to 2006.

Table 42: Scores for Financial Reporting theme in 2005 and 2006

		Financial Reporting	
Authority Name	**LA Type**	**2005**	**2006**
Barnsley	MDC	3	3
Bradford	MDC	2	2
Calderdale	MDC	3	3
Doncaster	MDC	2	2
Kirklees	MDC	3	3
Leeds	MDC	2	3
Rotherham	MDC	2	3
Sheffield	MDC	3	2
Wakefield	MDC	1	2
East Riding of Yorkshire	UA	4	4
Kingston upon Hull	UA	1	1
North East Lincolnshire	UA	2	3
North Lincolnshire	UA	3	3
York	UA	3	2
North Yorkshire	CC	2	3
Craven	DC	2	3
Hambleton	DC	3	3
Harrogate Borough	DC	3	3
Richmondshire	DC	1	2
Ryedale	DC	3	3
Scarborough Borough	DC	2	3
Selby	DC	3	3

Table 42 shows scored performance for the financial reporting (FR) theme in 2005 and 2006. For the **FR theme**, during the first year of the harder test, only one authority scored 4, the highest, ten authorities scored 3, eight authorities scored 2 and only one local authority

scored 1, the lowest score. Eight local authorities improved their FR scores and two local authorities had their scores lowered in 2006.
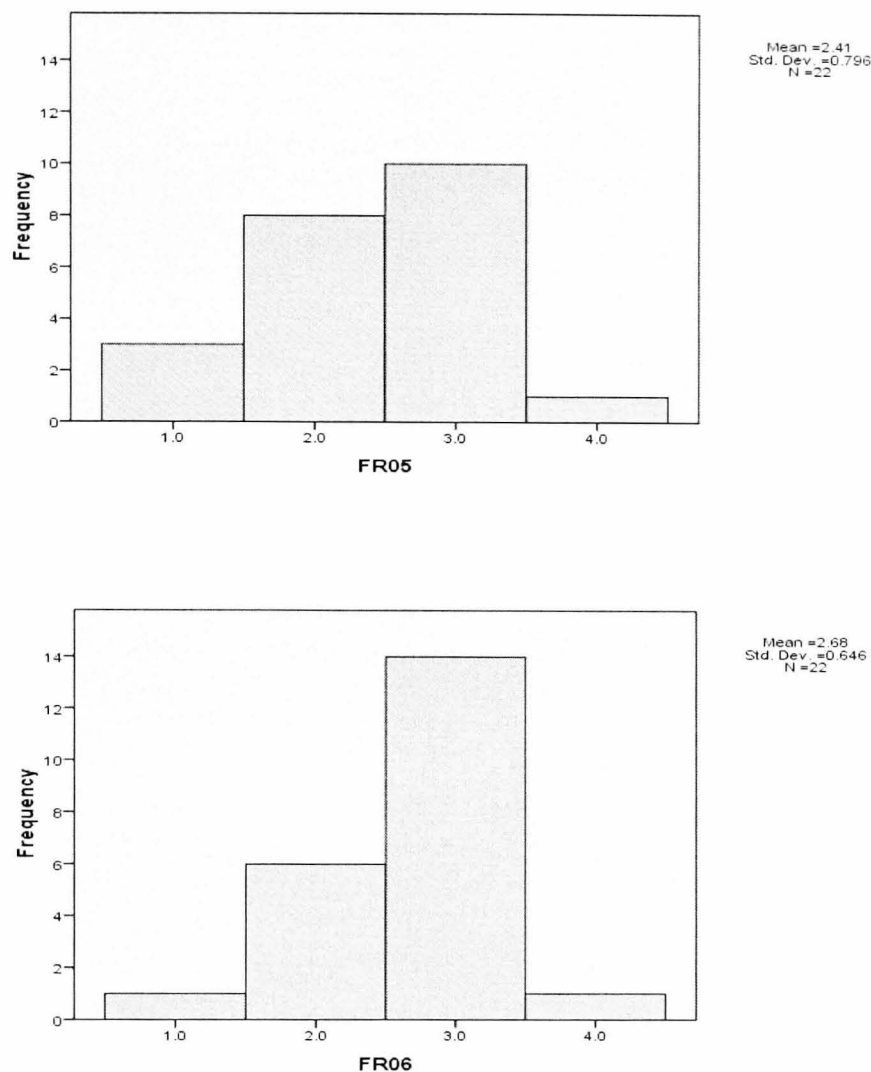
Figure 33: Distribution of scores – Financial Reporting, 2005-2006

Figure 33 demonstrates improvement in 2006 compared to 2005 where the majority of local authorities scored 3 in 2006. The figure also indicates improvement for most local authorities which scored 1 or 2 in 2005.

Table 43 shows scored performance for financial management (FM) theme in 2005 and 2006. For the **FM theme**, during the first year of the harder test, no local authority scored 4, the highest, ten authorities scored 3, ten authorities scored 2 and two local authorities scored 1, the lowest score. Eight local authorities improved their FM scores and no local authority had their score dropped in 2006.

Table 43: Scores for Financial Management theme in 2005 and 2006

| Authority Name | LA Type | Financial Management | |
		2005	2006
Barnsley	MDC	3	3
Bradford	MDC	3	3
Calderdale	MDC	2	3
Doncaster	MDC	1	2
Kirklees	MDC	2	2
Leeds	MDC	3	3
Rotherham	MDC	3	3
Sheffield	MDC	3	3
Wakefield	MDC	2	2
East Riding of Yorkshire	UA	3	4
Kingston upon Hull	UA	2	2
North East Lincolnshire	UA	1	2
North Lincolnshire	UA	2	3
York	UA	3	3
North Yorkshire	CC	3	3
Craven	DC	2	2
Hambleton	DC	3	3
Harrogate Borough	DC	3	3
Richmondshire	DC	2	3
Ryedale	DC	2	2
Scarborough Borough	DC	2	3
Selby	DC	2	3
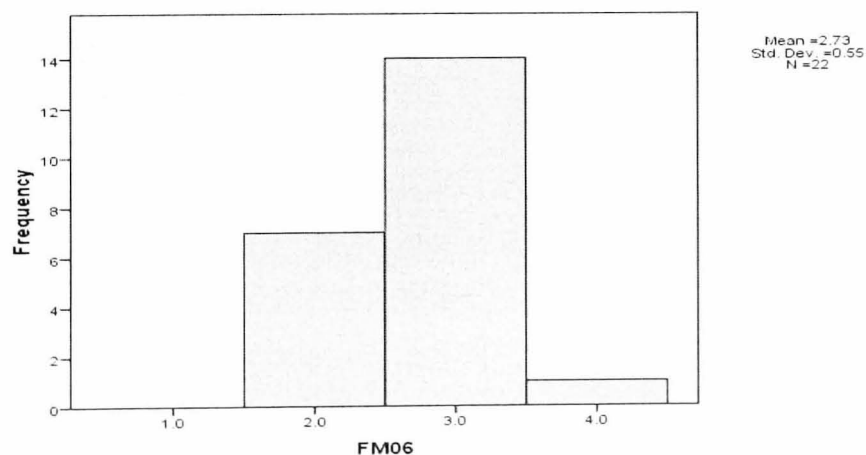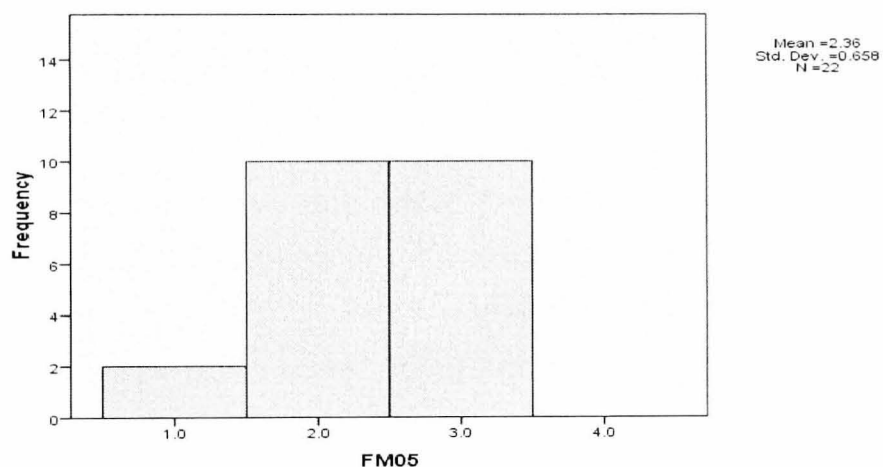
Figure 34: Distribution of scores – Financial Management, 2005-2006

Figure 34 demonstrates also improvement in 2006 compared to 2005 where the majority local authorities scored 3. The figure also indicates improvement for local authorities which scored 1 or 2 in 2005.

Table 44: Scores for Financial Standing theme in 2005 and 2006

Authority Name	LA Type	Financial Standing	
		2005	2006
Barnsley	MDC	3	3
Bradford	MDC	2	3
Calderdale	MDC	2	3
Doncaster	MDC	1	3
Kirklees	MDC	3	3
Leeds	MDC	2	3
Rotherham	MDC	2	4
Sheffield	MDC	3	3
Wakefield	MDC	3	3
East Riding of Yorkshire	UA	4	4
Kingston upon Hull	UA	2	2
North East Lincolnshire	UA	1	2
North Lincolnshire	UA	3	3
York	UA	3	2
North Yorkshire	CC	3	3
Craven	DC	2	3
Hambleton	DC	2	3
Harrogate Borough	DC	2	2
Richmondshire	DC	2	3
Ryedale	DC	3	3
Scarborough Borough	DC	2	3
Selby	DC	2	2

Table 44 is the scored performance for financial standing (FS) theme in 2005 and 2006. For the **FS theme**, during the first year of the harder test, one local authority scored 4, the highest, eight authorities scored 3, eleven authorities scored 2 and two local authorities scored 1, the lowest score. Ten local authorities improved their FS scores and one local authority had their score dropped in 2006. Two local authorities improved by two points on the scale for this theme, Rotherham improved from 2 in 2005 to 4 in 2006, and Doncaster improved from 1 in 2005 to 3 in 2006. FS is the only UoR theme evident in which local authorities improved by two points within a year. Compared to FR and FM, FS is also the only theme so far in which two local authorities scored 4. East Riding of Yorkshire maintained at 4 in both years.

Figure 35 demonstrates improvement shown in 2006 compared to 2005 where the majority of local authorities clustered at 3. The variation of scores was also reduced in 2006 when not one scored 1. The figure also indicates improvement for local authorities which scored lower scores of 1 or 2 in 2005. A similar pattern to the FR and FM is evident in the figure where the local authorities which improved are from the lower end.
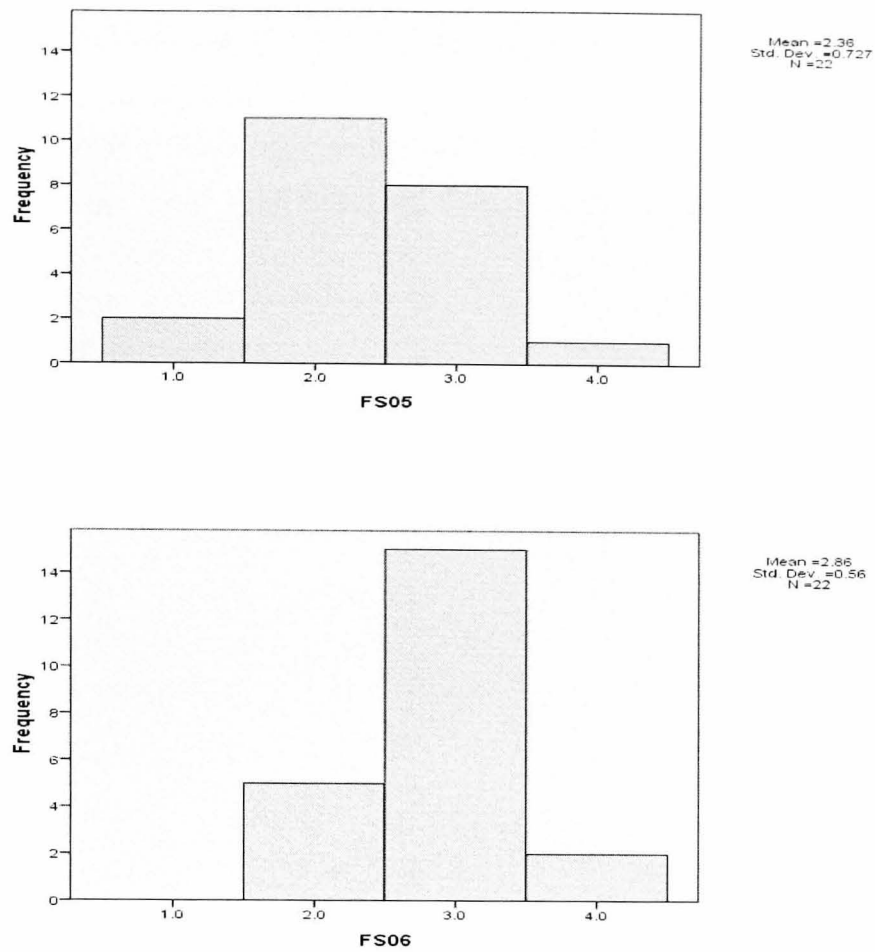
Figure 35: Distribution of scores – Financial Standing, 2005-2006

Table 45: Scores for Internal Control theme in 2005 and 2006

		Internal Control	
Authority Name	LA Type	2005	2006
Barnsley	MDC	2	2
Bradford	MDC	1	2
Calderdale	MDC	3	3
Doncaster	MDC	2	1
Kirklees	MDC	3	3
Leeds	MDC	3	3
Rotherham	MDC	3	4
Sheffield	MDC	3	2
Wakefield	MDC	3	3
East Riding of Yorkshire	UA	4	4
Kingston upon Hull	UA	1	2
North East Lincolnshire	UA	1	2
North Lincolnshire	UA	2	3
York	UA	2	2
North Yorkshire	CC	3	3
Craven	DC	3	3
Hambleton	DC	2	2
Harrogate Borough	DC	2	2
Richmondshire	DC	2	2
Ryedale	DC	2	2
Scarborough Borough	DC	2	2
Selby	DC	2	3

Table 45 is the scored performance for the internal control (IC) theme in 2005 and 2006. For the **IC theme**, during the first year of the harder test, one local authority scored 4, the highest, eight authorities scored 3, ten authorities scored 2 and three local authorities scored 1, the lowest score. Six local authorities improved their IC scores and two local authorities had their score lowered in 2006. Compared to FR and FM, IC is also the only theme in which two local authorities scored 4. East Riding of Yorkshire maintained at 4 in both years.
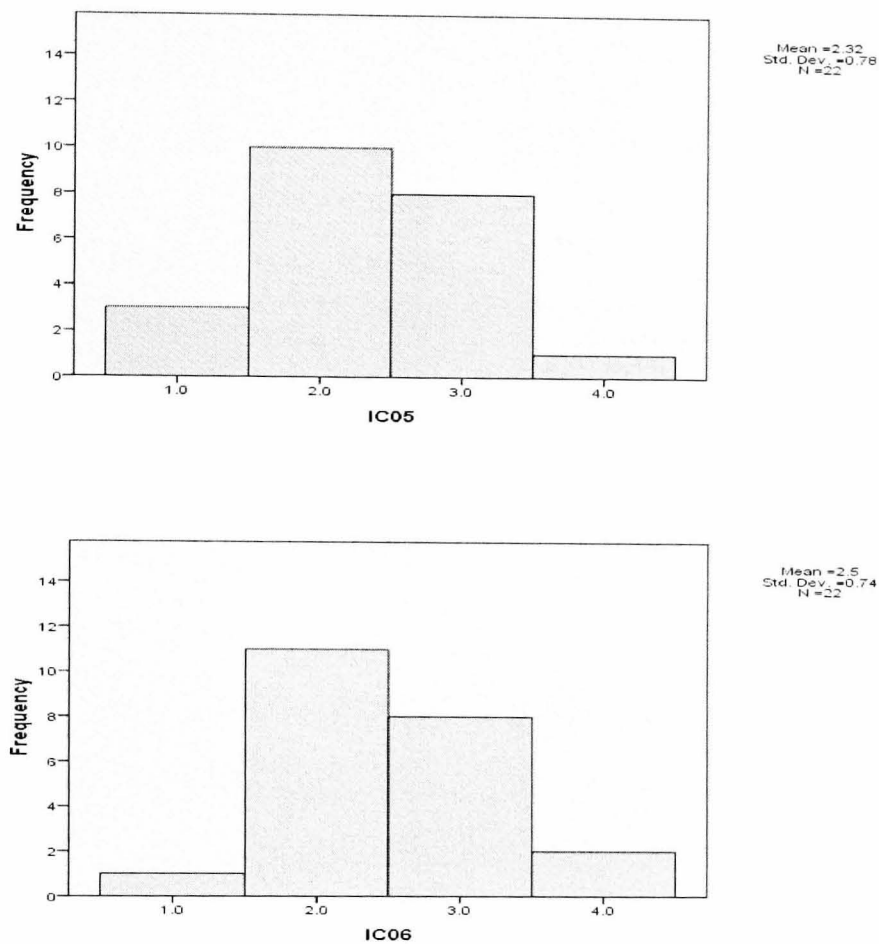
Figure 36: Distribution of scores – Internal Control, 2005-2006

Figure 36 also demonstrates improvement shown in 2006 compared to 2005 but the change in pattern is comparatively less obvious than FR, FM and FS themes. This is because, unlike the FR, FM and FS themes, IC theme had fewer local authorities improving their scores coupled with two local authorities which dropped their scores in 2006.

As revealed in Table 46, for the **VFM theme**, during the first year of the harder test, one local authority scored 4, the highest, ten authorities scored 3, nine authorities scored 2 and two local authorities scored 1, the lowest score. Only four local authorities improved their IC scores and none had their score lowered in 2006. The VFM theme shows the least improvement made by the local authorities but none had dropped their score. East Riding of Yorkshire also maintained at 4 in both years for the VFM theme.

Table 46: Scores for Value for Money theme in 2005 and 2006

		Value for Money	
Authority Name	LA Type	2005	2006
Barnsley	MDC	3	3
Bradford	MDC	2	2
Calderdale	MDC	3	3
Doncaster	MDC	2	2
Kirklees	MDC	3	3
Leeds	MDC	3	3
Rotherham	MDC	3	3
Sheffield	MDC	3	3
Wakefield	MDC	2	2
East Riding of Yorkshire	UA	4	4
Kingston-upon-Hull	UA	2	2
North East Lincolnshire	UA	1	2
North Lincolnshire	UA	3	3
York	UA	3	3
North Yorkshire	CC	3	3
Craven	DC	2	2
Hambleton	DC	3	3
Harrogate Borough	DC	2	3
Richmondshire	DC	2	2
Ryedale	DC	2	2
Scarborough Borough	DC	1	2
Selby	DC	2	3

Mean =2.45
Std. Dev. =0.739
N =22

VFM05

Mean =2.64
Std. Dev. =0.581
N =22

VFM06
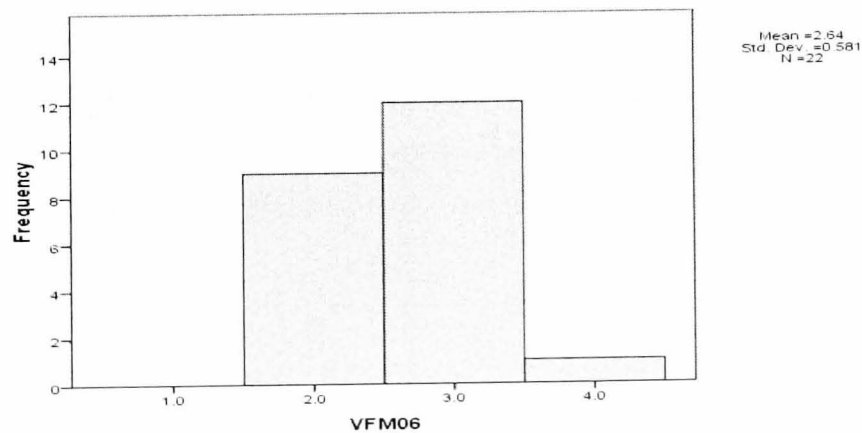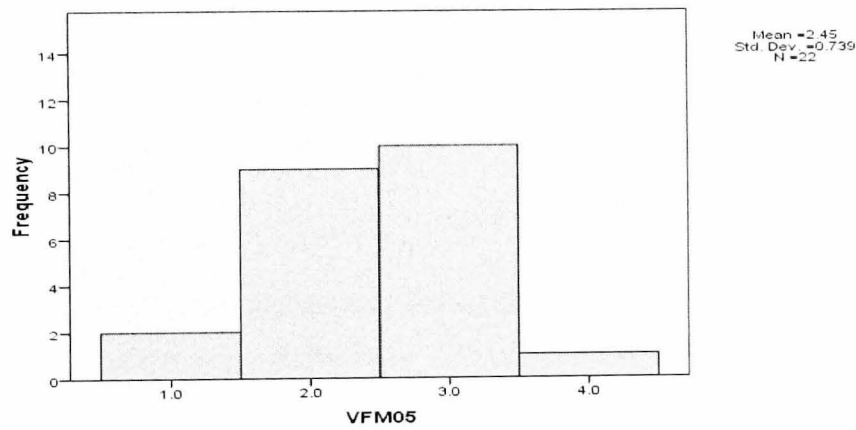
Figure 37: Distribution of scores – Value for Money, 2005-2006

Figure 37 also demonstrates the improvement shown in 2006 compared to 2005. However, the cluster of local authorities was at the lower end of the UoR scale for this theme compared to other themes. This is because, unlike the FR, FM and FS themes, the IC theme had fewer local authorities improving their scores coupled with two local authorities lowering their scores in 2006.

Table 47: Detail UoR scores for STCC in 2005 and 2006

Authority Name	LA Type	UoR Overall		Financial Reporting		Financial Management		Financial Standing		Internal Control		Value for Money	
		2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Barnsley	MDC	3	3	3	3	3	3	3	3	2	2	3	3
Bradford	MDC	2	2	2	2	3	3	2	3	1	2	2	2
Calderdale	MDC	3	3	3	3	2	3	2	3	3	3	3	3
Doncaster	MDC	2	2	2	2	1	2	1	3	2	1	2	2
Kirklees	MDC	3	3	3	3	2	2	3	3	3	3	3	3
Leeds	MDC	3	3	2	3	3	3	2	3	3	3	3	3
Rotherham	MDC	3	4	2	3	3	3	2	4	3	4	3	3
Sheffield	MDC	3	3	3	2	3	3	3	3	3	2	3	3
Wakefield	MDC	2	2	1	2	2	2	3	3	3	3	2	2
East Riding of Yorkshire	UA	4	4	4	4	3	4	4	4	4	4	4	4
Kingston-upon-Hull	UA	2	2	1	1	2	2	2	2	1	2	2	2
North East Lincolnshire	UA	1	2	2	3	1	2	1	2	1	2	1	2
North Lincolnshire	UA	3	3	3	3	2	3	3	3	2	3	3	3
York	UA	3	2	3	2	3	3	3	2	2	2	3	3
North Yorkshire	CC	3	3	2	3	3	3	3	3	3	3	3	3

Table 47 above reports all the scores for UoR and its themes for the STCC. The table is presented here to compare local authorities' achievement in the two years. From the table, variation of scores is exhibited among the STCC. Only East Riding of Yorkshire which is a UA obtained a straight 4 for all the themes in both years (except for FM in 2005 which has improved in 2006). Rotherham obtained a 4 in 2006 for FS and IC themes in 2006. None of the other local authorities obtained 4. Out of 15 local authorities, five experienced being scored one. North East Lincolnshire scored 1 for four UoR themes in 2005, but the authority had all its UoR themes' scores improved in 2006. Other local authorities had their scores clustered in the middle, either 2 or 3.

Table 48: Detail UoR scores for DC in 2005 and 2006

Authority Name	LA Type	UoR Overall		Financial Reporting		Financial Management		Financial Standing		Internal Control		Value for Money	
		2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Craven	DC	2	3	2	3	2	2	2	3	3	3	2	2
Hambleton	DC	3	3	3	3	3	3	2	3	2	2	3	3
Harrogate Borough	DC	2	3	3	3	3	3	2	2	2	2	2	3
Richmondshire	DC	2	2	1	2	2	3	2	3	2	2	2	2
Ryedale	DC	2	2	3	3	2	2	3	3	2	2	2	2
Scarborough Borough	DC	2	3	2	3	2	3	2	3	2	2	1	2
Selby	DC	2	3	3	3	2	3	2	2	2	3	2	3

Table 48 above reports all the scores for UoR and its themes for the DC. Lesser variation in the DC scores was exhibited in the table compare to the variation shown in Table 45 for the STCC. Both Richmondshire and Harrogate experienced one theme from the UoR scoring 1 in 2005, but both had improved in 2006. None of the DC scored a 4 and all the DC generally had their scores clustered in the middle, either 2 or 3.

The only council to suffer a drop in its overall UoR score from 2005 to 2006 was York, which dropped from 3 to 2 for both FR and FS themes. Sheffield had a similar fall from 3 to 2 each for FR and IC themes but maintained their overall UoR score at 3. The difference was that the falls caused York to have three themes at 2 and Sheffield only two themes at 2.

Four DC and two STCC improved their overall UoR scores by one point each. These councils improved at least one theme, with no themes reduced. North East Lincolnshire improved in all the five themes and pushed their overall UoR score a point higher from 1 to 2. Scarborough, a DC, improved one point each for four themes. Selby, Richmondshire and Rotherham each improved three themes, but only Selby and Rotherham had their overall UoR increase by one point. With two themes improved, Craven also got their overall UoR improved but other authorities that improved two themes like Bradford, Calderdale, Doncaster, Leeds, and North Lincolnshire did not. Harrogate improved its overall UoR score by improving only one theme by a point but other councils which improved their score in only one theme did not. Similar improvements made for some other council cannot guarantee an improvement in their overall UoR score. These indicate that improvements in scores are dependent on how close local authorities' achievements are to the borderlines.

The North East Lincolnshire results show that a council can improve on all five themes within a year. The improvements made were from level 1 to 2, perhaps indicating that it is less difficult to progress from level 1 to level 2 compared to other KLoE levels. Level 2 represents

the council meeting basic requirements. Possibly a lack of documentation caused the council to get a 1 in the previous year, therefore, to improve to a 2 may not be too difficult in a year. However, Scarborough improved from level 2 to 3 for three themes and from 1 to 2 for VFM theme, proving that it is possible to improve to level 3 for three themes in one year. Doncaster and Rotherham, proved that an increase by two points is possible as both councils improved their FS theme from 1 to 3 and 2 to 4 respectively.

The overall UoR score is determined by the AC's rule, not through a simple averaging of the themes' score, so that, being excellent in one or two themes will not result in an excellent UoR. It is possible that the themes in UoR correlate with each other: being excellent in one theme will contribute to excellence in another. However, further investigation is necessary to confirm the relationship among UoR themes. To understand the movement in scores and among the themes from 2005 to 2006, the mean for the themes' scores are calculated and shown in Table 49.

Table 49: Yorkshire and The Humber: Mean Score for every UoR themes in 2005 and 2006

	UoR Overall		Financial Reporting		Financial Management		Financial Standing		Internal Control		Value for Money	
Mean score	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Single tiers and counties	2.67	2.73	2.40	2.60	2.40	2.73	2.47	2.93	2.40	2.60	2.67	2.73
Districts	2.14	2.71	2.43	2.86	2.29	2.71	2.14	2.71	2.14	2.29	2.00	2.43
All	2.50	2.73	2.41	2.68	2.36	2.73	2.36	2.86	2.32	2.50	2.45	2.64

The mean scores for all themes are better for both the STCC and the DC in 2006 compared to 2005. The rate of improvement is higher for the DC on all themes compared to the STCC. The mean score for the DCs FR theme is better than that of the STCCs'. In 2005, the mean score for VFM is the highest for STCC but the lowest for DC. However, in 2006 the VFM mean score for the STCC has not improved but improvement is seen in that for the DC. Although the AC claimed that VFM theme assessment is more subjective than other themes and combines the elements measured in other themes, the DC shows a big improvement within a single year.

In 2006, the DC's FR mean score is the highest while the STCC's FS mean score is the highest. FR was among the best theme for the 22 councils studied. FR relates to the production of annual accounts, where almost all local authorities managed to submit their SoA on time and obtained an unqualified audit opinion in 2005. Improvement in FR theme can be observed since 2000 (see discussion on Certification Audit in section 5.2 of this chapter). IC was among the poorest theme for all authorities in the region. Among the

KLOE for IC is for local authorities to have an audit committee. Not many local authorities had a specific audit committee prior to 2005, although the same functions as that of an audit committee might be by other committees. However, information reported in the local authorities' meeting minutes available on their website revealed that in 2005 and 2006, majority local authorities in the region formed audit committees to fulfil the KLoE's requirement.
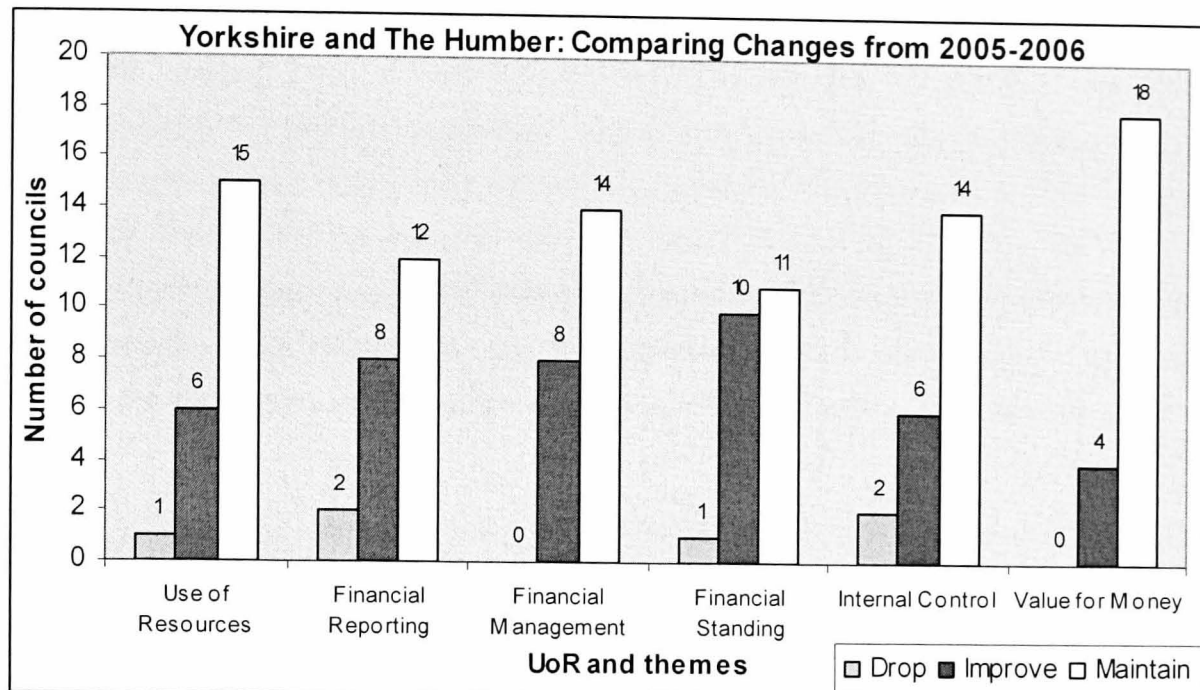
Figure 38: Yorkshire and The Humber – Movement in Theme's Score from 2005 to 2006

Figure 38 compares the movement in themes' score for local authorities in the region. Fewer authorities dropped themes score compared to those improved or maintained. The majority of local authorities maintained their 2005 score in 2006, though some councils show improvement on the themes. The VFM theme proved difficult to change with 18 out of 22 councils maintaining their 2005 score in 2006. More improvement is seen in the FS theme followed by FM and FR.

Table 50: Rank Order – Mean Score for every UoR themes in 2005 and 2006

RANK	REGION		STCC		DC	
	05	06	05	06	05	06
1	VFM(2.45)	FS (2.86)	VFM(2.67)	FS (2.93)	FR (2.43)	FR (2.86)
2	FR (2.41)	FM (2.75)	FS (2.47)	VFM(2.73)=	FM (2.29)	FM (2.71)=
3	FS (2.36)=	FR (2.68)	FM (2.40)=	FM (2.73)=	FS (2.14)=	FS (2.71)=
4	FM (2.36)=	VFM(2.64)	IC (2.40)=	IC (2.60)=	IC (2.14)=	VFM(2.43)
5	IC (2.32)	IC (2.50)	FR (2.40)=	FR (2.60)=	VFM(2.00)	IC (2.29)

Note: Means are calculated based on the UoR themes scores which were scaled from 1 to 4. Higher means indicate higher performance on the scale.

Table 50 displays rank order for the means of all the five themes in 2005 and 2006. The rank was ordered from the highest to the lowest means. Higher means exhibit higher performance on the UoR scale. Based on the combined local authorities' performance, VFM theme had the highest mean scores in 2005 and the FS theme had the highest mean scores in 2006. The lowest mean scores for combined local authorities' performance was the IC themes for both years. The mean scores were also calculated separately for the

STCC and the DC to identify if the pattern of rank order for means would differ. For the STCC in the region, VFM had the highest mean scores in 2005, and FS has the highest mean scores in 2006. FM, IC and FR themes had same mean scores which is the lowest value in 2005. In 2006, the STCC lowest mean scores were for IC and FR themes. For the DC, the highest mean scores were for FR in 2005 and 2006. The lowest mean scores were for VFM theme in 2005 and IC theme in 2006.

Thus, specific pattern was not observed to allow identification should any one of the themes was easiest or hardest. Questions related to the relative difficulty of themes and reasons for it were asked during interview with the auditees. Respondents for this research will be asked to comment on the UoR themes under the new assessment starting from 2005, because the themes used were different and were not comparable to those of 2002-2004. Nevertheless, the results for UoR themes from 2002 to 2004 will be discussed concisely in the following sections just to check on local authorities' performance patterns on the UoR.

5.3.3 UoR themes scores 2002-2004

Discussion – Use of Resources Assessment
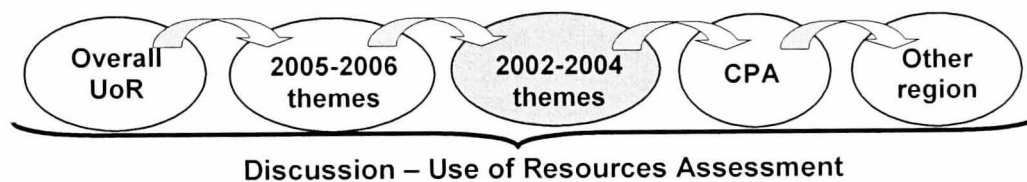
The five themes for UoR under *CPA –the original'* were Financial Standing (FSD), Internal Financial Control (IFC), Standards of Financial Conduct and Prevention (SFCP), Financial Statements (FSM), and Legality of Financial Transactions (LFT). Results for these themes were separated from the 2005-2006 because the five themes have been revised in 2005 resulting in different categories for the proceeding years. Hence, results for UoR themes scores in 2002-2004 will be compared and discussed accordingly. As for the DC, scores are available only for 2004 and limited to the UoR themes.

Table 51 shows scores for FSD theme obtained by STCC and DC from 2002-2004 with their mean scores. FSD measures local authorities' performance in terms of setting a balanced budget, setting a capital program, financial reporting and monitoring, meeting financial targets and financial reserves. The number of local authorities obtaining a 4 increased from two in 2002 to six in 2003 and eight in 2004. Two DC scored 4 in 2004. These are unlikely with the new assessment regime, where very few local authorities scored 4 and none of the DC in the region were able to achieve such a score. The mean scores for FSD (STCC) show increases in scores from 2.87 in 2002 to 3.40 in 2004.

Table 51: Scores for UoR themes 2002-2004 – Financial Standing

Authority	LA type	Financial Standing		
		02	03	04
North Yorkshire	CC	2	3	4
Barnsley	MDC	3	3	4
Bradford	MDC	2	4	4
Calderdale	MDC	3	4	4
Doncaster	MDC	3	3	3
Kirklees	MDC	4	4	4
Leeds	MDC	3	3	3
Rotherham	MDC	3	3	3
Sheffield	MDC	2	3	4
Wakefield	MDC	3	4	4
East Riding of Yorkshire	UA	3	4	4
Kingston-upon-Hull	UA	2	2	3
North East Lincolnshire	UA	3	2	1
North Lincolnshire	UA	3	3	3
York	UA	4	4	3
Mean scores		2.87	3.27	3.40
Craven District Council	DC			4
Hambleton District Council	DC			4
Harrogate Borough Council	DC			3
Richmondshire District Council	DC			3
Ryedale District Council	DC			3
Scarborough Borough Council	DC			3
Selby District Council	DC			3
Mean scores				3.29

Table 52: Scores for UoR themes 2002-2004 – Internal Financial Control

Authority	LA type	Internal Financial Control		
		02	03	04
North Yorkshire	CC	3	4	4
Barnsley	MDC	2	3	3
Bradford	MDC	2	3	3
Calderdale	MDC	3	3	4
Doncaster	MDC	2	2	2
Kirklees	MDC	3	3	4
Leeds	MDC	3	3	3
Rotherham	MDC	3	3	3
Sheffield	MDC	3	4	4
Wakefield	MDC	2	4	4
East Riding of Yorkshire	UA	3	4	4
Kingston-upon-Hull	UA	2	2	3
North East Lincolnshire	UA	3	3	2
North Lincolnshire	UA	3	3	4
York	UA	2	2	2
Mean scores		2.60	3.07	3.27
Craven District Council	DC			4
Hambleton District Council	DC			4
Harrogate Borough Council	DC			3
Richmondshire District Council	DC			3
Ryedale District Council	DC			4
Scarborough Borough Council	DC			3
Selby District Council	DC			3
Mean scores				3.43

Table 52 shows scores for the IFC theme obtained by STCC and DC from 2002-2004 with their mean scores. This theme measures local authorities' performance in terms of monitoring of financial systems, maintaining an adequate internal audit functions and risk identification and management. No local authorities scored 4 in 2002, four in 2003 and seven in 2004. Three out of seven DC obtained 4 for this theme in 2004. The mean scores for IFC

(STCC) also demonstrated increases from 2.60 in 2002 to 3.27 in 2004. The mean score for the DC is higher than the STCC for this theme.

Table 53 shows scores for SFCP theme obtained by STCC and DC from 2002-2004 with their mean scores. This theme measures local authorities' performance in terms of ethical framework, governance arrangements, treasury management and prevention and detection of fraud and corruption. Three local authorities scored 4 in 2002, seven in 2003 and eleven in 2004. Two out of the seven DC obtained 4 for this theme in 2004. The mean scores (STCC) for this theme also increases from 3.07 in 2002 to 3.60 in 2004.

Table 53: Scores for UoR themes 2002-2004 – Standards of Financial Conduct and the Prevention

Authority	LA type	Standards of Financial Conduct and the Prevention		
		02	03	04
North Yorkshire	CC	4	4	4
Barnsley	MDC	3	3	4
Bradford	MDC	3	4	4
Calderdale	MDC	3	4	4
Doncaster	MDC	3	3	4
Kirklees	MDC	3	3	4
Leeds	MDC	4	4	4
Rotherham	MDC	3	3	3
Sheffield	MDC	3	3	4
Wakefield	MDC	2	4	4
East Riding of Yorkshire	UA	3	4	4
Kingston-upon-Hull	UA	3	2	2
North East Lincolnshire	UA	2	3	2
North Lincolnshire	UA	3	3	4
York	UA	4	4	3
Mean scores		**3.07**	**3.40**	**3.60**
Craven District Council	DC			4
Hambleton District Council	DC			3
Harrogate Borough Council	DC			3
Richmondshire District Council	DC			4
Ryedale District Council	DC			3
Scarborough Borough Council	DC			3
Selby District Council	DC			3
Mean scores				**3.29**

Table 54: Scores for UoR themes 2002-2004 – Financial Statements

Authority	LA type	Financial Statements		
		02	03	04
North Yorkshire	CC	3	4	4
Barnsley	MDC	3	2	4
Bradford	MDC	3	3	3
Calderdale	MDC	3	4	4
Doncaster	MDC	2	3	3
Kirklees	MDC	3	3	4
Leeds	MDC	3	3	3
Rotherham	MDC	3	3	3
Sheffield	MDC	3	3	3
Wakefield	MDC	3	2	3
East Riding of Yorkshire	UA	4	3	4
Kingston-upon-Hull	UA	2	3	3
North East Lincolnshire	UA	2	2	1
North Lincolnshire	UA	3	3	4
York	UA	3	3	3
Mean scores		**2.87**	**2.93**	**3.27**
Craven District Council	DC			3
Hambleton District Council	DC			4
Harrogate Borough Council	DC			4
Richmondshire District Council	DC			3
Ryedale District Council	DC			4
Scarborough Borough Council	DC			3
Selby District Council	DC			3
Mean scores				**3.43**

Table 54 shows scores for FSM theme obtained by STCC and DC from 2002-2004 with their mean scores. This theme measures local authorities' performance in terms of timeliness, quality and supporting records for their financial statements. Only one local authority scored 4 in 2002, two in 2003 and six in 2004. Three out of the seven DC obtained 4 for this theme in 2004. The mean scores (STCC) for this theme also increases from 2.87 in 2002 to 3.27 in 2004. The mean score for the DC (3.43) is also higher than the STCC (3.27) for this theme.

Table 55 shows scores for LFT theme obtained by STCC and DC from 2002-2004 with their mean scores. This theme measures local authorities' performance in terms of roles and responsibility, consideration of legality of significant financial transactions and new legislation. Six local authorities scored 4 in 2002, ten in 2003 and twelve in 2004. Four out of the seven DC obtained 4 for this theme in 2004. The mean scores (STCC) for this theme also increases from 3.27 in 2002 to 3.67 in 2004.

Table 55: Scores for UoR themes 2002-2004 – Legality of Financial Transactions

Authority	LA type	Legality of Financial Transactions		
		02	03	04
North Yorkshire	CC	4	4	4
Barnsley	MDC	4	4	4
Bradford	MDC	4	4	4
Calderdale	MDC	3	4	4
Doncaster	MDC	2	4	4
Kirklees	MDC	4	4	4
Leeds	MDC	3	3	3
Rotherham	MDC	3	4	4
Sheffield	MDC	3	3	4
Wakefield	MDC	4	4	4
East Riding of Yorkshire	UA	3	4	4
Kingston-upon-Hull	UA	2	2	2
North East Lincolnshire	UA	3	3	2
North Lincolnshire	UA	4	4	4
York	UA	3	3	4
Mean scores		**3.27**	**3.60**	**3.67**
Craven District Council	DC			4
Hambleton District Council	DC			3
Harrogate Borough Council	DC			4
Richmondshire District Council	DC			3
Ryedale District Council	DC			4
Scarborough Borough Council	DC			3
Selby District Council	DC			4
Mean scores				**3.57**

Generally many local authorities scored 4 for all the themes. LFT had the most local authorities, 16, scoring 4 in 2004 followed by SFCP which was 13. FSD and IFC had ten local authorities each scoring 4 in 2004 and the least was FSM which had nine local authorities scoring 4 in 2004. Thus if we are to rank the theme which had the least local authorities scoring 4 as the most difficult, FSM could be considered the most difficult out of the five themes, followed by FSC and IFC. SFCP could be ranked fourth and the easiest would be LFT. In interviews, respondents were asked questions about the sudden change in local authorities' scores from 2004 to 2005, and the order of difficulty of themes.

Table 56: Yorkshire and The Humber – Mean Scores for the five UoR themes from 2002-2004

	STCC			DC
Themes	2002	2003	2004	2004
Financial Standing (FSD)	2.9	3.1	3.4	3.3
Internal Financial Control (IFC)	2.6	3.1	3.3	3.4
Standards of Financial Conduct and the Prevention (SFCP)	3.1	3.4	3.6	3.3
Financial Statements (FSM)	2.9	3.0	3.3	3.4
Legality of Financial Transactions (LFT)	3.1	3.6	3.7	3.6

Table 56 shows the mean scores for all UoR themes from 2002 to 2004. The mean score for every theme is relatively higher in the first year of the assessment system compared to the 2005 system. Mean score for all the themes improved from the base year. The DC means score for all the themes also relatively high compared to the 2005 system. Although 2004 is the first assessment year for the DC, the scoring was relatively higher than the STCC first assessment year. The mean scores for LFT was the highest with the least variation. Unlike

the mean scores for all the UoR themes in 2005 and 2006, which were below 3, mean scores for all the themes under the original system were greater than 3. Although both STCC and DC reached the mean score of more than 3 in 2004, the scores have been reset to 'new' lower scores in 2005. The lower scores were possibly due to the effect of new measures: local authorities are not familiar with the new assessment yet; awarding authorities with lower scores provide rooms for improvement in the future; or perhaps their performance declined based on the new indicators applied in the revised assessment. Questions about these issues were asked during interview.

The DC mean score for IFC and FSM were higher than the STCC mean in 2004. This could be due to a smaller variation in the DC performance for this theme compared to the STCC. Among the STCC, North East Lincolnshire remains the worst performing authority which reduced mean scores for IFC and FS in 2004. North East Lincolnshire has had problems with their annual accounts since 2004. Among the interesting questions to be answered is what cause the huge differences in scores obtained by local authorities that come from same geographical area like North East Lincolnshire and North Lincolnshire. Thus respondents were asked to respond to these issues accordingly.

Although this research focused only on the UoR scores, local authorities' scores for CPA will be discussed concisely in the following section. This is because UoR scores were reported together with CPA results and rankings.

5.3.4 Overall CPA Scores

Discussion – Use of Resources Assessment
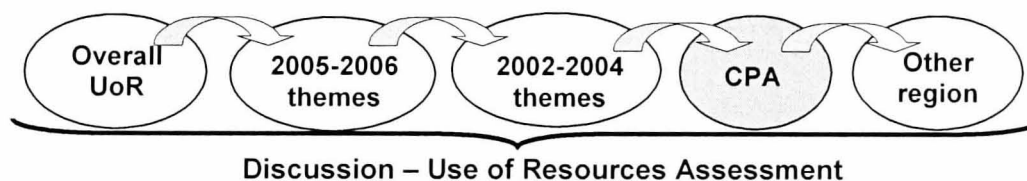
Table 57: Five-Point Scale for Local Authorities

Scale	2002-2004	2005-2008 (Star categories)
1	Poor	0 (Stars)
2	Weak	1
3	Fair	2
4	Good	3
5	Excellent	4

(Source: Adapted from the Audit Commission's reports)

Table 57 shows the five scale ranking used since 2002 and the new star ranking introduced in 2005. For overall CPA performance, star categories of '0' to '4' stars have been introduced to STCC in 2005 to replace the previous five scales ranking of 'Poor', 'Weak', 'Fair', 'Good',

and 'Excellent'. The new star categories were applied to the DC only from 2006. The AC has not mentioned anything about the equivalence of the poor-excellent ranking with the star categories, but maintaining the five scales ranking. The highest score which was 'excellent' authority is now replaced with '4 stars' and the lowest score, 'poor', is now substituted by 'zero stars'.

Table 58 shows the overall CPA scores for the 22 local authorities. CPA scores for the DC after 2005 were only published once in 2008. The CPA scores above show little variation among the MDC during 2004 and 2005 although a different test was being used in 2004 and 2005. However, performance among the UA varies compared to the DC. From the CPA scores above, twelve STCC scored 3 and 4 stars in 2005, which is 80 percent. Comparing to previous scale, 3 and 4 stars are equivalent to good and excellent authority, eleven local authorities obtained these scores in 2004. Three DC (43 percent) obtained the good and excellent rankings.

Table 58: Overall CPA Scores from 2002-2005

Authority	LA type	2002	2003	2004	2005	2006
North Yorkshire	CC	Fair	Good	Good	3	4
Barnsley	MDC	Good	Fair	Good	3	3
Bradford	MDC	Good	Good	Good	3	3
Calderdale	MDC	Fair	Fair	Good	3	3
Doncaster	MDC	Fair	Fair	Good	3	3
Kirklees	MDC	Excellent	Excellent	Excellent	3	3
Leeds	MDC	Good	Good	Good	4	3
Rotherham	MDC	Fair	Weak	Fair	3	3
Sheffield	MDC	Good	Good	Excellent	4	4
Wakefield	MDC	Poor	Weak	Fair	2	2
East Riding of Yorkshire	UA	Good	Excellent	Excellent	3	3
Kingston-upon-Hull	UA	Poor	Poor	Poor	1	2
North East Lincolnshire	UA	Poor	Weak	Weak	0	2
North Lincolnshire	UA	Good	Good	Excellent	3	3
York	UA	Good	Good	Good	3	3
Craven DC	DC				Fair	
Hambleton DC	DC				Excellent	
Harrogate BC	DC				Fair	
Richmondshire DC	DC				Fair	
Ryedale DC	DC				Good	
Scarborough BC	DC				Good	
Selby DC	DC				Weak	

Table 58 also shows that excellent councils in 2004 may attained a 4-star in 2005 like Sheffield, but could also attained only a 3-star in 2005, which the score was awarded to majority of 'good' local authorities in 2004. Leeds scored a 4-star in 2005 although the authority only attained 'good' in 2004. Fair local authorities in 2004 also attained 2-star and 3-star ratings in 2005. Kirklees which was ranked 'excellent' from 2002 to 2004 only scored a 3-star in 2005. Kingston upon Hull was a 'poor' authority from 2002 obtained a 1-star in 2005, but North East Lincolnshire being a 'weak' authority which is better than Kingston upon Hull only obtained a 0-star in 2005. These indicate the lack of comparability between the

'CPA –original test' and the 'CPA –the harder test'. The scores in 2005 show that several local authorities scoring a 3 for its UoR were able to score 4-star in CPA: Leeds, Sheffield and North Yorkshire. However, two local authorities scoring 4 for their UoR were ranked at 3-star for their CPA: Rotherham and East Riding of Yorkshire.

No specific trends can be observed from the scores alone. Meeting with the local authorities would help to understand the impact these assessments have had on them, whether performance was improving or declining or whether it was just the effect of indicators and the assessment methods used. The CPA is a combined assessment of four aspects; corporate assessment, UoR assessment, service assessment and DoT assessment. To obtain 4-stars, authorities have to be excellent in all the four aspects. UoR is only part of the overall measure, so getting the highest UoR score does not guarantee an overall 4-star. These raise issues as to the relative contribution of UoR to the CPA. Hence, questions on the relative importance of UoR to CPA will be asked during interview with respondents. The following section will present a summary of the combined performance of local authorities in all the nine government regions of England.

5.3.5 Analysis for Whole of England Data from 2005-2006

Discussion –Use of Resources Assessment
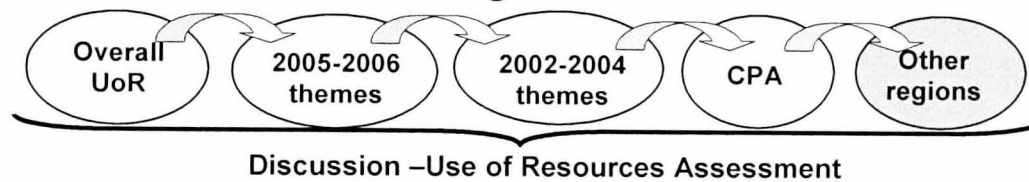
As mentioned in the introduction chapter, this study is not intended to generalise findings from the Yorkshire and The Humber region to all local authorities in England. However, this section presents a comparative performance of Yorkshire and The Humber region in relation to other regions in England. Mean scores were calculated and compared for all local authorities in England as well as combined local authorities in each region. This was done for UoR overall and its themes scores from 2002 to 2006.

Table 59: Overall UoR Mean Score for England 2002-2006

Mean Score for England	2002	2003	2004	2005	2006
Single Tier and County councils	3.00	3.49	3.67	2.57	2.86
District councils				2.32	2.57
All councils	3.00	3.49	3.67	2.41	2.68

Table 59 shows the overall UoR mean scores from 2002 to 2006 calculated for England to check should the pattern for England differ from that in the Yorkshire and The Humber region. As the DC only have scores from 2005, the published mean score for 2002 to 2004 for England is the same mean score for all STCC. The mean score for England also increased from 3.00 in 2002 to 3.67 in 2004 and due to 'the harder test', the mean score was restarted at 2.41 in 2005 and increased to 2.68 in 2006. The mean score for STCC throughout England

experienced similar steady increases from 2002 to 2004; a drop in the mean score in 2005 and an increase from 2005 to 2006. The mean score for the DC is lower than the STCC in both 2005 and 2006.

Table 60: Single tier and county councils – mean scores for overall UoR based on governmental region

Mean Score for Overall UoR	2005	2006
England- 150 councils	2.57	2.86
Yorkshire and The Humber- 15 councils	2.67	2.73
West Midlands- 13 councils	2.85	3.15
South West- 16 councils	2.38	2.69
South East- 19 councils	2.53	2.89
North West- 22 councils	2.55	2.86
North East- 12 councils	2.58	3.17
London- 33 councils	2.73	3.00
East of England- 10 councils	2.20	2.50
East Midlands- 9 councils	2.56	2.67

Table 60 shows the UoR mean scores for STCC for the whole of England and divided into the nine government regions. The mean scores for STCC in the Yorkshire and The Humber region are similar to those of the whole of England. Variation between the regions scoring the lowest mean to the regions with the highest mean was 0.65 in 2005 and 0.5 in 2006.

Table 61: District councils – mean scores for overall UoR based on governmental region

Mean Score for Overall UoR	2005	2006
England- 238 councils	2.32	2.57
Yorkshire and The Humber- 7 councils	2.14	2.71
West Midlands- 24 councils	2.21	2.50
South West- 35 councils	2.09	2.40
South East- 55 councils	2.56	2.76
North West- 24 councils	2.46	2.46
North East- 13 councils	2.15	2.77
East of England- 44 councils	2.27	2.45
East Midlands- 36 councils	2.28	2.58

Table 61 shows the mean scores calculated for all DCs in England and divided into eight government regions. The mean score for DC in the Yorkshire and The Humber region is different to the mean score for England by 0.18 point lower in 2005 and 0.14 point higher in 2006. The mean score for DC is lower than the mean scores for STCC except for the DC in South East and East of England regions. The variation in mean score between the regions from lowest to the highest is small, 0.47 in 2005 and 0.37 in 2006 with the South West region being the poorest performing in both years. The range of mean scores between regions narrows from 2005 to 2006 for both the STCC and the DC.

Table 62: All councils – mean scores for overall UoR based on governmental regions

Mean Score for Overall UoR	2005	2006
England- 388 councils	2.41	2.68
Yorkshire and The Humber- 22 councils	2.50	2.73
West Midlands- 37 councils	2.43	2.73
South West- 51 councils	2.18	2.49
South East- 74 councils	2.55	2.80
North West- 46 councils	2.50	2.65
North East- 25 councils	2.36	2.96
London- 33 councils	2.73	3.00
East of England- 54 councils	2.26	2.46
East Midlands- 45 councils	2.33	2.60

Table 62 shows mean scores calculated for the whole of England and its nine regions combining both the STCC and the DC. The mean score for Yorkshire and The Humber region is higher than the whole of England by 0.09 point in 2005 and 0.05 point in 2006. The best performing was London in both years (London has no district councils). The worst performing was the South West region in 2005 and East of England region in 2006. However, the range between the best and worst performing region not wide, 0.55 in 2005 and 0.54 in 2006.

5.3.6 Discussion for Findings on Use of Resources Assessment

The results analysed above revealed patterns of performance which raise issues to be explored during fieldwork interviews with local authorities. The different pattern of improvements in 2002-2004 regime compared to the 2005-2006 regime point to the question of whether the indicators were made different or more difficult. The change in the assessment regime in 2005 also causes a systematic drop in scores for all local authorities which raise interesting questions to be explored with the local authorities.

The different pattern of improvement in the UoR themes of FR, FM, FS, IC and VFM point to a query of which theme would be more difficult or easier to improve or to witness a drop in scores. Thus questions such as the opportunity to improve, risk of declines, easier indicators, usefulness of the indicators, factors influencing the performance and their effort to deal with the assessment needed further exploration.

Table 63: Auditors Auditing the 22 Local Authorities in 2005

Authority	LA type	UoR	Auditors	Private Auditor	District Auditor
Barnsley	MDC	3	RSM Robson Rhodes (Sarah Howard)	√	
Bradford	MDC	2	AC Kernel House		√
Calderdale	MDC	3	PWC (Ian Looker)	√	
Doncaster	MDC	2	AC Sue Sunderland		√
Kirklees	MDC	3	AC Ivan McConnell		√
Leeds	MDC	3	KPMG LLP (Adrian Lythgo)	√	
Rotherham	MDC	3	AC Sue Sunderland		√
Sheffield	MDC	3	KPMG LLP (Kevin Wharton)	√	
Wakefield	MDC	2	AC Ivan McConnell		√
East Riding of Yorkshire	UA	4	AC Michael Newbury		√
Kingston-upon-Hull	UA	2	AC Michael Newbury		√
North East Lincolnshire	UA	1	AC Sue Sunderland		√
North Lincolnshire	UA	3	RSM Robson Rhodes (Sarah Howard)	√	
York	UA	3	AC Mark Kirkham		√
North Yorkshire	CC	3	AC Mark Kirkham		√
Craven District Council	DC	2	AC Mark Kirkham		√
Hambleton District Council	DC	3	AC Mark Kirkham		√
Harrogate Borough Council	DC	2	AC Mark Kirkham		√
Richmondshire District Council	DC	2	AC Mark Kirkham		√
Ryedale District Council	DC	2	AC Mark Kirkham		√
Scarborough Borough Council	DC	2	AC Mark Kirkham		√
Selby District Council	DC	2	AC Mark Kirkham		√

Table 63 show a list of auditors assigned to perform the 2005 audit for local councils in the region and the UoR score awarded to each council. Not one of the DC was audited by a Private Auditor, and all the STCC audited by the Private Auditor scored 3 for their UoR in 2005. The auditors auditing specific local authorities may differ now as a result of rotation. The UoR component in the CPA regime has brought in subjectivity to the auditor's judgment when compared with financial auditing task. Other categories in the CPA assessment: direction of travel; services; and corporate, may involve justifications made by separate bodies coordinated by the auditor responsible for auditing the local council. UoR assessment is a justification made entirely by the auditor with guidelines provided by the AC and a self-assessment submitted by local council for the VFM theme.

Out of 22 councils under investigation, only five were being audited by private auditors, Leeds and Sheffield were audited by KPMG; Barnsley and North Lincolnshire were audited by RSM Robson Rhodes; and Calderdale by PWC. Other councils were audited by the Commission staff, called District Auditor. It would be interesting to find out if Private Auditors judgment differ from those of the District Auditor's. The Audit Commission (2006e) mentioned that the UoR's scores will be quality assured to ensure consistency across the country and between audit suppliers. Auditors are not allowed to share scores with local councils until the quality assurance process has taken place although they are encouraged to be as open and transparent with local authorities as possible. The auditors are encouraged to be transparent and open with local councils particularly to make sure that councils are aware of areas where a need to improve is identified. No specific criteria for

councils to be audited by private or district auditor is given other than their locality and the location of which audit firm won a government tender. Only 23 percent councils were audited by Private Auditors and all are single tier and county councils and among the top performing authorities in the region. Sheffield and North Lincolnshire were 'Excellent' and Leeds and Barnsley were 'Good' councils in 2004 and in 2005 Sheffield and Leeds obtained 4 stars while North Lincolnshire and Barnsley have obtained 3 stars.

5.4 Summary

Chapter 5 addressed the second research question: how have local authorities performed based on their auditor's assessment (certification audit and Use of Resources assessment). The findings attempt to fill the gap found in the literature about *"how"* the local authorities performed based on their auditors' assessment and to guide further exploration in the fieldwork analysis to achieve the main aim of this study. Local authorities are found to improve on the aspects of certification audit as well as on the scale used for assessing overall UoR and its themes. The pattern of improvement on the UoR scale was quite standardised with annual improvement shown in the *CPA –the original* being at a higher rate than in the *CPA –the harder test*. This suggests that the enhanced regulation to some extent promoted improvement at local authorities, in particular when based on the assessment scale. Thus, Power's (1994) argument that the existing audit and inspection regimes fail to promote improvement is challenged here. However, views from the auditees would add more to close the theoretical and empirical gap on the impact of regulation and audit explosion on auditees. These will be considered in the following chapter.

Findings from this chapter as well as from Chapter 2 and Chapter 3, were used to create structured statements for interview with local authorities in the focus region. Results from the interviews will be reported in the following Chapter 6.

6 FINDINGS AND DISCUSSION II: AUDITEES VIEWS

Introduction	→	Literature Review	→	Methodology	→	Findings & Discussion II	→	Conclusion
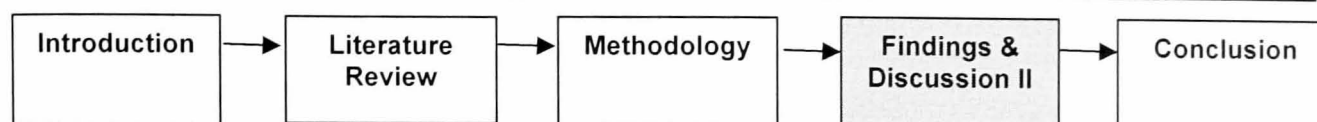
6.1 Introduction

Recalling the research aims and objectives presented in Table 1, Chapter 1, there are five research questions derived from the main aim.

Research Question	HOW DO THE EXTERNAL AUDITING FUNCTIONS OF LOCAL AUTHORITIES IN ENGLAND AFFECT LOCAL AUTHORITIES AS AUDITEES?
Aim	*To discover how the external auditing performed at local authorities in England affects local authorities as recipients of the service.*
Objectives (Specific research questions)	1. *What are the functions of external auditors for local authorities in England?* 2. *How do the local authorities perform based on their auditor's assessment (certification audit and Use of Resources assessment)?* 3. *Do the auditees view the published scores as reflecting their local authority's performance?* 4. *What are the perceived factors contributing to the variations in the local authorities' performance?* 5. *How do the auditees view the external audit process and the performance assessments?*

The first research question is answered in Chapter 3 which guided exploration of published performance results from auditors' assessment to answer the second research question, presented in Chapter 5. Findings, analysis and discussion emerged from the first two research questions were used to assist investigation of the rest of research questions, which explores auditees views:

3. *Do the auditees view the published scores as reflecting improvement and position of the local authorities?*

4. *What factors contribute to the variations in local authorities' performance?*

5. *How do the auditees view the external audit process and the performance assessment?*

These three research questions were explored through structured fieldwork interviews; each respondent marked a set of structured questions and their answers were discussed in a face-to-face interview. This chapter seeks to fill the gap mention by Power (1997) of the lack of research on how auditees react to the audit explosion resulting from changes in public sector administration. This chapter will discuss specifically the responses gathered from auditees from the fieldwork interviews to complete the main aim of this research. The flow of discussion will follow the diagram presented in Figure 28 from Chapter 5.

Part I of the findings presented in Chapter 5 was separated into sections: (i) certification; and (ii) use of resources because the two audits produced two distinct reports. However, in this chapter, the findings from both audits will be combined and discussion be based on research questions three, four and five. Merging the two audits together in the discussion for this chapter is appropriate because the auditors conducted both audits together; certification audit also serves as a requirement for UoR themes assessment, particularly the 'Financial Reporting' theme. Other themes; 'Financial Management', 'Financial Standing', 'Internal Control' and 'Value for Money' also partially related to the certification audit activities.

The structured questions for interviewing applied a five-point Likert-scale from strongly agree to strongly disagree with no view as an alternative for those who have no knowledge or did not wish to express a view about an issue. However, the two scales of strongly and generally agree (disagree) were combined because many respondents consistently mark generally agree (disagree) and avoid marking strong opinion. To maintain the anonymity of respondents, the discussion will not mention the responses as coming from good or poor scoring local authorities nor type of council. Some respondents did give their opinion on the different effect the assessment has had on different types of council, and this will be generally addressed in this chapter.

Some statements from the structured interview questions resulted in mixed responses, where the percentage of agreement/disagree were similar. Nevertheless, during the interview sessions, respondents were found to agree on many things even when their marked responses were different. Although responses vary depending on the issue, their explanation during interview sessions confirmed that many share similar views. Throughout the discussion of findings in this chapter, respondent views will not be differentiated between those of the District or the Single Tier and County councils as movements of the directors from one council to another are frequent, i.e. some of the directors had experience in different councils, different government regions and in police and fire authorities.

Even those who had served the same local authority for many years often had experience working with other types of council or knowledge of other councils through discussion among their circle of professional colleagues. Thus they were able to reflect views from their wide experience, and it did not seem appropriate to differentiate the views of the directors from different types of council. The quotes throughout the discussion in this chapter are extracts from dialogue with the respondents, the director of finance (DOF).

6.2 Do the auditees view published scores as reflecting their local authority's performance?
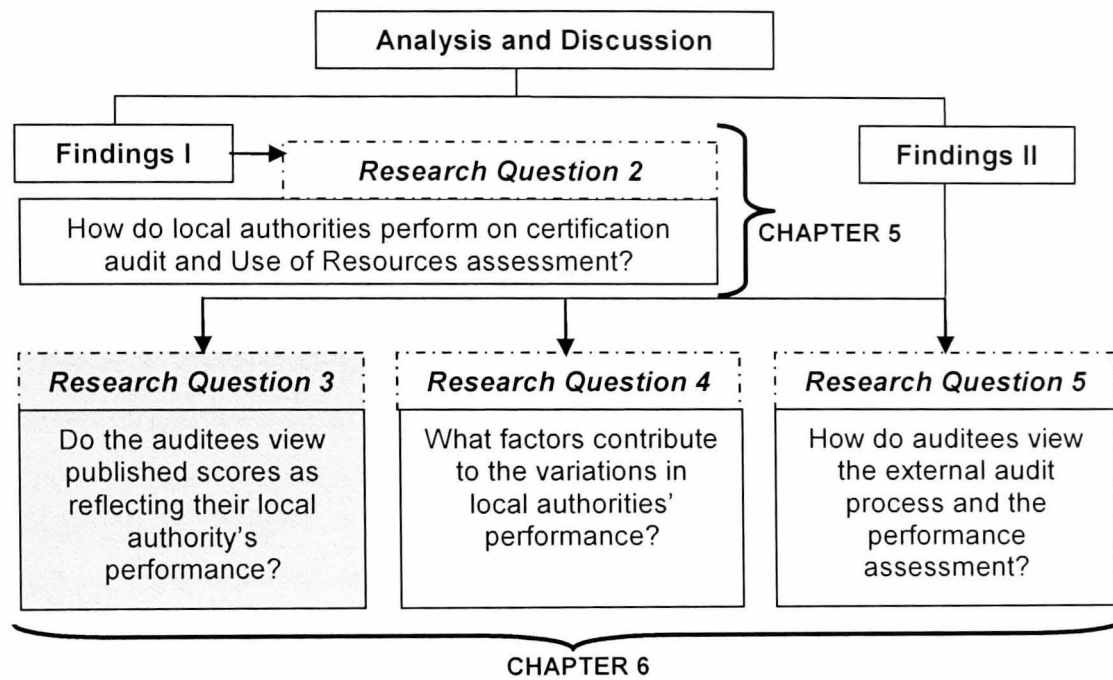
This section reports views on the published scores and ranking, contribution of the external audit towards efficiency and effectiveness, contribution of external audit towards improvement in aspects of certification audit; contribution of external audit towards public trusts and participation; impact on voting decisions; public inspection of local authorities SoA; impact of local electors' objections; impact of public interest report; and perception as to whether the use of resources assessment is a worthwhile innovation. The discussion will be divided in subsections 6.2.1 to 6.2.9.

6.2.1 Scores and Ranking

In this section, issues related to the published scores and rankings by the AC after assessment is completed, and the perceived relative importance of the value for money (VFM) scores to the use of resources (UoR) and the comprehensive performance assessment (CPA) will be discussed.

6.2.1.1 The Published Ranks

Hood et al (1999) suggest four mechanisms of control over public management, oversight which involves command and control, and another three inspector-free mechanisms that works through competition, mutuality and contrived randomness. According to the authors, competition is achieved through the ranking of performance. Having their performance ranked provided the inspector-free control mechanism as suggested by the authors. Table 64 displays the results for questions of whether the published UoR rankings by the AC are a fair reflection of the local authority's relative position and whether the rankings have promoted competition among local authorities.

Table 64: The Commission's Published Ranking

Statements	Frequency (%)			
	Agree	Neither Agree nor disagree	Disagree	No view
The UoR rankings published by the Audit Commission				
i. are a fair reflection of my local authority's relative position	65.0	5.0	30.0	
ii. have promoted competition among local authorities	70.0	5.0	20.0	5.0

Notes: N=20
Source: Interview Data, 2008

The results show that a majority of respondents agree that the published rankings are a fair reflection of their position and have promoted competition amongst local authorities. These were seen especially with councils which were rated higher than their previous scores, as one director has responded:

"Yes, we are an excellent council, so it must be right" [DOF 1]

Mean analysis to support the frequency is shown in Table 65, which reflected higher means for both statements (3.40 and 3.58) and standard deviations below 1.

Table 65: Mean Analysis – The Commission's Published Ranking

Statements	Min-Max	Means	Standard Deviation
The UoR rankings published by the Audit Commission			
i. Are a fair reflection of my local authority's relative position	2-5	3.40	0.99
ii. Have promoted competition among local authorities	2-5	3.58	0.90

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

While some disagree that the published score is a fair reflection, although they have been rated better, based on their experience:

"Some areas are better than the scores we get, and some areas are worse than the scores they have given' [DOF 5]

The reason for this disagreement is the dispute between auditors' and directors' interpretations of the indicators provided by the Commission. These lead the auditors to look for a different set of measure as evidence while the local authorities are providing something else. A number of respondents suggested that, at times, the auditor gets a wrong message from what is intended by the local authority. The respondents explained that these happen because the auditors depend on description and evidence provided by local authority rather than searching and investigating for it themselves:

"I provided them with the story and evidence to get the score rather than they search and investigate for it. They have interpreted it (the question in indicators) differently as to how I interpreted it...they have got literal interpretations, based on the questions. The questions can sometimes be in the wrong area, or they might be asking the wrong question" [DOF 5]

These issues point us to the auditor's qualification and efficiency in conducting their audit at local authorities as well as coherent understanding of the KLoEs, its questions and evidence required. As highlighted in Davis et al (2001), inspectors need to exhibit an understanding and appreciation of the services they inspect which include their technical expertise as well as sensitivity to local political contexts. The majority of interviewees agree that the published rankings promoted competition between local authorities:

> "Yes, that is definitely true, you only have to be in a room with two or three executives to understand the case" [DOF 1]

> "Absolutely, competition not cooperation, look at how one council often brag about how they scored 4, it is a competition" [DOF 7]

The directors explained that they are competing with each other to reach higher rankings but they knew where they should stop as not all the indicators are achievable. Although they are competing, that does not prevent them from working together. A director pointed that they are cooperating for the sake of improvement, not because of the assessment:

> "... in the early days, there's a lot of scepticism, cynicism, ... local authorities achieving 4 stars, either didn't want to reveal what they were doing or you'd have to pay to find out how they do it... with the harder test now, it has promoted sharing, I can just pick up the phone and rang up my friend, the director of another local authority and ask them how they are doing this.." [DOF 2]

Many of them choose to work with each other to improve their authority, thus having 'healthy' competition:

> "... we have got our league tables, we share resources and reports when we meet. We verbally share experience and we get a seven-page document that identifies areas to improve and areas not to improve. We have done this on local basis" [DOF 5]

The directors also agree on cooperation and sharing between them; some excellent council allowed staff from other councils to visit and look at how they work.

> "... not aware of competition, but move towards collaboration between local authorities, sharing 'best practices' far more than in the past ... probably more of competition among high flyer chief executives to get the best scores ... promoted more communication and sharing among all levels at local authorities, network through CIPFA, finance advisory team, and other authorities within Yorkshire and The Humber region." [DOF 6]

Their stories of achievement are also made available at the AC's website as 'best practice'. However, the sharing at times disheartened other authorities as they found that the same (or sometimes better) effort at their local authorities resulted in poorer scores than those considered 'excellent'. Sometimes it seemed that the local authority rated as 'excellent' was not doing anything better than the rest of them. This appears to have led to them cooperating more and recognizing when they should stop following the indicators. Hood et al (1999) recognized competition as an important inspector-free control over public bureaucracy, in which the authors suggest is achievable by generating a ranking based on performance. Mutuality is another inspector-free control mechanism evident here, where an authority is influenced by a group of local authorities (Hood et al, 1999).

6.2.1.2 Improvement in Published Scores

The previous section discussed views on the published rankings; this section will uncover views on the published scores. The published scores show improvement at local authorities from one year to another since 2002, thus several statements were posed to explore what is going on at local authorities. The results are displayed in Table 66.

Table 66: Improvement in Published Scores

Statements	Frequency (%)		
	Agree	Neither Agree nor disagree	Disagree
The published scores by the Audit Commission show a significant improvement from one year to another since 2002:			
i. The scores are a fair reflection of performance	65.0	20.0	15.0
ii. The scores rose because local authorities knew where to improve through the indicators provided	90.0	10.0	0.0
iii. The assessment indicators become easier to achieve after a number of years	20.0	20.0	60.0

Notes: N=20
Source: Interview Data, 2008

A majority (65%) agree that the improvement shown in the published scores are a *fair reflection of their performance* although a small percentage disagree (15%). Mean scores reported in Table 67 for this statement is 3.55 also indicates agreement, although not very high. A director responded:

> "I think local authorities are getting better now, not sure if they are lot better, but we know how to answer the questions now". [DOF 5]

The view above is shared by many respondents, in which they agree that their councils are much better now compared to previous years. The underlined part in the response above is evidence of learning and mastering of the instruments-indicators. The directors also agree that 'learning' could have contributed more to the increase in published scores than real improvement. Wilson (2005, p. 228) study also reported majority of respondents view that the classification of CPA outcomes by the AC 'was a fair reflection of their authority's performance'. Although several researchers (Broadbent, 2003; Wilson, 2004) argue the grading policy for all local governments in one of five categories, many respondents in Wilson (2005) study agree to the categorization.

That brought us to the second statement in this category: *the scores rose because local authorities knew where to improve through the indicators provided*. This statement attained a very high majority (90%) agreement. A director said:

> "Yes, we are intelligent people; we know how to play the game. What you do is you identify the area where you are weak and you make sure that is the area you are improving, so it would be wrong to say there is not an element of game playing here." [DOF 1]

The agreement is also supported by mean analysis reported in Table 67 which shows a higher mean, 4.10 indicating strong agreement and a relatively lower standard deviation,

0.55, signify unanimity in views. Some directors, though admitting gaming element, suggested that the increases in scores do reflect improvement and that they use the indicators in a positive way, for example:

> "We are better at dealing with the indicators, but the scores are not superficial, it is a general improvement." [DOF 15]

Table 67: Mean Analysis – Improvement in Published Scores

Statements	Min-Max	Means	Standard Deviation
The published scores by the Audit Commission show a significant improvement from one year to another since 2002:			
i. The scores are a fair reflection of performance	2-5	3.55	0.83
ii. The scores rose because local authorities knew where to improve through the indicators provided	3-5	4.10	0.55
iii. The assessment indicators become easier to achieve after a number of years	1-4	2.50	0.95

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

The final statement considered whether the assessment indicators become easier to achieve after a number of years. A majority of respondents (60%) disagreed. A mean reported in Table 67 for this statement is also low, 2.50 signifies the disagreement. A director responded:

> "The criteria have become harder. It is easier and you learn through experience in terms of what the Commission are looking for but you have still got to do the same amount of work. You know what standards they are looking for, but you still need to go through the process to produce good quality financial accounts. In that sense, it is not easier." [DOF 6]

The quote above suggests that the indicators are not getting easier but that the local authorities learn about the assessment processes which make them accept and establish facts about the assessment system so they can better deal with it. Many respondents agree that there are simpler indicators although many of them are considered more difficult.

Another director explained:

> "Yes it gets easier because you get familiar with the game. The indicators do get more difficult but the beauty of these indicators is that they keep changing all the time. You get familiar with the game and you get used to what the auditors want and so what you need to do to satisfy the auditors, that is why you can improve scores." [DOF 11]

Respondents believe that they are now better at dealing with the indicators; have had the discipline and better time management to respond to the assessment requirement, have brought in expertise to help with problem areas and to motivate staff to be more productive as well as maintaining good relationship and dialogue with the auditors. These are evidenced by the improvement in their published scores, which they agree that it is a fair reflection of their performance. However, they disagree that 'the indicators are getting easier'. The indicators are made difficult with movement along the scale's levels and additions to compulsory requirements at every level in the scale. Wilson's (2005) study also

found majority of respondents believe that CPA could lead to national priorities taking precedent over local ones due to the weighting attached to key components within its methodology. Thus, 'gaming' is unavoidable when local authorities may prioritize services that are given most weight in the determination of overall core service scores (Pollitt, 1989; Wilson, 2005).

6.2.1.3 Relative Importance

The statements in this section were generated to probe the relative importance of value for money to the UoR's score and UoR's score to the overall CPA score. Table 68 and Table 69 report the analysis of directors' responses to the statements.

Table 68: Relative Importance

Statements	Frequency (%)		
	Agree	Neither Agree nor disagree	Disagree
Scoring higher for the			
i. overall UoR score is important to obtain good CPA stars	95.0	0.0	5.0
ii. VFM theme score is important to achieve good overall UoR score	80.0	5.0	15.0

Notes: N=20
Source: Interview Data, 2008

As revealed in Table 68 above, both statements attained very high majority agreement, but a higher majority (95%) agree that the overall UoR score is important to obtain good CPA stars than the majority (80%) for VFM theme score is important to achieve good overall UoR score. Both statements fetched high means indicating agreement, exhibited in Table 69, but evidenced higher mean for the importance of UoR to CPA stars than VFM to overall UoR score.

Table 69: Mean Analysis – Relative Importance

Statements	Min-Max	Means	Standard Deviation
Scoring higher for the			
i. overall UoR score is important to obtain good CPA stars	2-5	4.25	0.72
ii. VFM theme score is important to achieve good overall UoR score	2-5	3.85	0.93

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

A majority of respondents' view that the UoR score is an important determinant for CPA stars although a few said that some local authorities attained a better UoR score but lower CPA stars than those attaining a lower UoR score. This is also evidenced in the AC's published scores. A director said:

> "UoR is one of the frontline. Yes VFM had a higher rating on UoR but if you did well on the other themes, you do well without VFM." [DOF 6]

The quote above confirmed the frequencies and means pattern revealed in Table 68 and Table 69. Another director explained:

"For UoR, it is not just about VFM, but about the entire themes." [DOF 1]

Based on the respondents' responses, they view VFM as the most difficult theme in UoR assessment but they do not think that the theme fetch higher credence than other themes in the decision for UoR.

6.2.2 Contribution towards Efficiency and Effectiveness

The AC's mission statement emphasises that UoR is aimed at increasing the efficiency and effectiveness of local authorities. Hence, statements were generated to explore respondents' views on whether they think efficiency and effectiveness are achieved as a result of the UoR exercise. Table 70 reports frequency results for responses on the achievement of efficiency and effectiveness at the respondent's authority and all local authorities in general.

Table 70: Contribution of Use of Resources Assessment

The UoR assessment contributes to	Frequency (%)			
	Agree	Neither Agree nor disagree	Disagree	No view
Increased efficiency in my local authority	45.0	30.0	25.0	
Increased effectiveness in my local authority	40.0	30.0	30.0	
Increased efficiency in local authorities generally	35.0	35.0	25.0	5.0
Increased effectiveness in local authorities generally	35.0	30.0	30.0	5.0

Notes: N=20
Source: Interview Data, 2008

As reported in Table 70, the most common view for increased efficiency and effectiveness in 'my local authority' is to agree, 45 percent agree that UoR contributes to increase in their local authority efficiency and 40 percent agree that UoR contributes to increase effectiveness. A director responded:

"The assessment is part of the pressure for a local authority to become more efficient, but it takes longer for efficiency." [DOF 6]

Although the percentage is low, many respondents recognised that efficiency increases at their local authority, while effectiveness is improved more slowly. Table 71 shows mean analysis for views on the contribution of UoR assessment to increased efficiency and effectiveness. Means are slightly greater than 3 for increased efficiency and effectiveness at 'my local authority' indicate agreement but not very strong. Mean for efficiency is higher (3.20) than the mean for effectiveness (3.10).

Table 71: Mean Analysis – Contribution of Use of Resources Assessment

The UoR assessment contributes to:	Min-Max	Mean	Standard Deviation
i increased efficiency in my local authority	2-4	3.20	0.83
ii increased effectiveness in my local authority	2-4	3.10	0.85
iii increased efficiency in local authorities generally	0-4	3.11	0.81
iv increased effectiveness in local authorities generally	0-4	3.05	0.85

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the contribution of UoR to increased efficiency and effectiveness
Source: Interview Data, 2008

A director explained:

> "It didn't increase efficiency; it is an action plan on how you deliver what the Commission thinks world class FM system, etc. It is a validation process that is being applied to me rather than helping hand that is being lent to me to sort out as an organisation. It is very much a hurdle I had to jump over rather than anything else. Again it has improved some of the things we done. In all local authorities tend to be quite similar now in terms of accounts etc. Neither efficient nor effective, I would rather have my team sit down and think of how to improve rather than providing set of evidence." [DOF 5]

The response above exhibited the respondents doubt over the necessity of having that extant of assessment regime. The response also included views for local authorities generally. The frequency of responses for increased efficiency and effectiveness of local authorities in general also follow the same pattern of responses for individual local authorities but at a lower rate. The mean analysis reveals means of 3.11 for increased efficiency and 3.05 for effectiveness which indicate inclination towards disagreeing. Wilson's (2005) study on the views of local governments' chief financial officers on the effect of Best Value also found that the initiative had no effect on either the costs of blue collar services or their quality.

Many directors responded that they have no evidence about local authorities generally to enable them commenting on it. Another director responding about whether UoR contributes towards improvement in efficiency and effectiveness said:

> "That is possibly not because UoR's statements are great. But where UoR's judgement has been useful to people are in itself it has raise a profile of certain things and so, in terms of efficiency and the like, you are able to back up any changes that you make, any concerns that you have with the auditors view and the UoR judgement." [DOF 1]

The response exhibits a lack of belief that the UoR assessment regime has contributed towards efficiency and especially effectiveness at local authorities, which is also shared by many, for example:

> "Increase in effectiveness? No generally. Effectiveness is measured by public satisfaction. Achieving good UoR scores may or may not help effectiveness of a local authority, because at the end of the day you may increase the UoR score but does that make you more effective in delivering services to the public? It is interesting that up and down the country, local authorities attain good UoR scores, good service standards, good CPA but the public don't think they are doing very well. So there is a mismatch, that's why I said that is not necessarily the case. [DOF 11]

The view suggests that the indicators did not reflect local citizens' expectation but more towards the expectation of the central government and what the AC thinks is best-practice which is discussed in Section 6.3.1. Some directors view that there are other ways of promoting efficiency and effectiveness instead of using the indicators. They view the indicators as sometimes discouraging especially when other local authorities who are not doing any better than them obtained much better scores (see further discussion in Section 6.3.6). Thus, they agree that the AC should listen and learn more about the needs of local citizen and take into consideration local factors affecting authorities' performance. Some suggested that views from the directors or head of finance at local authorities should be heard before the design phase of the assessment indicators rather seeking consultation after it has been done (further discussion in Section 6.3.3).

6.2.3 Contribution of External Audit towards improvement in Aspects of the Certification Audit

Respondents were asked for their views on the extent of the contribution which external audit had on aspects of certification audit. Results from descriptive analysis of responses in these aspects are presented in Table 72 and Table 73 below.

Table 72: Contribution of External Audit towards improvement in Aspects of Certification Audit

	Frequency (%)			
External audit contributes significantly towards:	Agree	Neither Agree nor disagree	Disagree	No view
Improvement in Financial Accounting System	45.0	35.0	20.0	
Improvement in Financial Reporting	65.0	25.0	10.0	
Improvement in Quality of Presentation of the Statement of Accounts	55.0	35.0	10.0	
Improvement in Time taken for Approval of the Statement of Accounts	60.0	10.0	30.0	
Improvement in Time taken for Publishing the Statement of Accounts	40.0	15.0	40.0	5.0

Notes: N=20
Source: Interview Data, 2008

Table 72 shows the most popular choice is to agree that external audit has contributed significantly towards improvement in financial accounting system (45%), a bigger majority for financial reporting (65%), quality of presentation of the statement of accounts (55%) and time taken for approval of the statement of accounts (60%). In terms of contribution towards improvement in time taken for publishing the statement of accounts, the most preferred response is disagree (40%). Variances in frequency responses for significant contribution towards aspects of certification audit above provided an opportunity to rank as to which aspect is perceived to have been helped the most by the external audit function. Thus, Table 73 displays results of rank-order from mean analysis performed on the statements.

Table 73: Mean Analysis and Rank Order – Contribution of External Audit towards Improvement in Aspects of Certification Audit

Rank	External audit contributes significantly towards:	Min-Max	Mean	Standard Deviation
1	Improvement in Financial Reporting	1-5	3.65	0.99
2	Improvement in Quality of Presentation of the Statement of Accounts	1-5	3.45	0.89
3	Improvement in Financial Accounting System	1-5	3.35	1.09
4	Improvement in Time taken for Approval of the Statement of Accounts	1-5	3.25	1.16
5	Improvement in Time taken for Publishing the Statement of Accounts	1-5	2.95	1.18

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the external audit contribution towards improvement
Source: Interview Data, 2008

As revealed in Table 73, respondents agree that external audit contributes significantly towards improvement in financial reporting aspect, followed by quality of presentation of the statement of accounts; financial accounting system is ranked third before time taken for approval of the statement of accounts. All of the four aspects carry means of higher than 3, indicate agreement to the aspects. The highest mean is 3.65 and the lowest for agreement is 3.25. Means higher than 3 but lower than 4 indicates mild agreement.

In terms of financial reporting, which obtain the highest in the rank-order, respondents explained that comments made by the external auditors have helped them improve financial reporting aspects. Detailed indicators in the KLoEs have also helped to point towards which items should be targeted for improvement for financial reporting. A director said:

> "Generally they have forced us to do things. The fact that they have the time scale of what they are has forced us to improve the way we do things." [DOF 7]

A rather different view is expressed by one of respondent:

> "I don't feel that the Commission and the external audit existence are necessarily improving our financial reporting. This is partly because the reporting we are doing now is absolutely bonkers. The format we are required to use is absolutely flawed. Several years ago our financial account were 50-70 pages, they are now horrendous." [DOF 17]

A majority of respondents share similar views to the above response. Although they agree that some aspects were improved with the 'force' from the external audit requirement, they perceived some of the changes are unnecessary. Another director responded:

> "It depends on what you believe reporting is for. If reporting is for accountants, I agree. But if reporting for the residents, I disagree, because I don't think there are many members on the local residents that understand the accounts, or have an interest with it". [DOF 2]

Many directors expressed concern that the accounts are not comprehensible by many and that local authorities publish summary of financial performance for local residents. They also said that a session to explain the accounts for councillors is held every year.

Respondents explained that having the requirements specified for presentation of the annual report has helped notify them of areas for improvement in the quality of presentation of the accounts. They agreed that the quality is getting better because of the force from annually enhanced KLoEs indicators and requirement by statutes. The force has also contributed towards an improvement in the timing for approval of the statement of accounts, which has to be brought forward to comply with auditor's request so that local authorities could avoid a poor scoring. Thus respondents do not disagree that external auditing has contributed towards improvement. They however, doubted the needs of having such a comprehensive annual reports and quality level.

In respect of financial accounting system, a director explained:

> "I am not sure if the external auditor contributes because our auditors never get their hands dirty by touching the finance system, they always rely on the paper based output or distributed output or things that coming out of the accounting system rather than looking at the accounting system itself. ... They didn't help in terms of systems. They are not interested. They don't have access rights and they don't wish to have." [DOF 5]

This view is shared by many respondents. They explained that external audit did not help with the financial accounting system at local authorities directly; local authorities may have to find their ways out, and they received no help or suggestion from either the auditors or the AC in this aspect. Respondents notify that they occasionally seek help from other local authorities. Many respondents suggested that the high cost of installing new accounting systems discouraged them from changing to the ones commonly used by other local authorities. Nevertheless, almost all directors accept the fact that having the assessment forces them to improvise their accounting system. However, some respondents expressed that even without the assessment they would have improved.

In respect of publication time, a low mean is evidenced (2.95), indicating disagreement because respondents view that improvement in time taken for publishing the statement of accounts is an enforcement by statute which local authorities have to comply with. The deadline for publication of statement of accounts is specified in the statutes; therefore little contribution comes from external auditors.

6.2.4 Public Trust and Participation

Power (1997) argues that the audit explosion has its roots in the loss of trust in contemporary society, and therefore, it has become important to provide an account of one's actions. Thus, the enhanced regulation resulting from NPM seeks to make government officials accountable. Power (1997) doubts that audits deliver greater accountability, efficiency and quality, but suggests that they encourage distrust; the auditees would become less trustworthy when they adapt their behaviour strategically in response to the audit process. Figure 11 on p. 73 and the explanation that follows describes the displacement of trust in local government.

Hood (1995) also highlights the high-trust and low-trust relationship with 'accountingization' (a term used by Power and Laughlin, 1992, p. 133). The high degree of auditing in local government signifies low-trust in the organizations.

Thus, statements were generated and used during the interviews to probe respondents' views on public trust and public participation in local authorities. The objective was to ascertain whether interviewees' experienced improved trust and public participation as a result of the assessment regimes. Table 74 and Table 75 show results from analysis of responses for the statements.

Table 74: Influence on Public Trust and Participation

	Frequency (%)			
	Agree	Neither Agree nor disagree	Disagree	No view
The UoR exercise has improved				
i. public trust in my local authority	15.0	30.0	55.0	
ii. public participation in my local authority's activities	5.0	15.0	80.0	
iii. public trust in local government generally	5.0	35.0	55.0	5.0
iv. public participation in activities organised by local government generally	0.0	20.0	75.0	5.0

Notes: N=20
Source: Interview Data, 2008

The frequencies of responses shown in Table 74 indicate a high majority of disagreement. 80 percent disagree that the UoR exercise has improved public participation in 'my local authority's activities' and 75 percent for 'activities organised by local government generally'. Frequency of responses for the 'UoR exercise has improved public trust in my local authority' fetches 55 percent disagree as well as for 'public trust in local government generally'. The responses signify a mismatch between the objectives of the assessment to enhance public trust and the perceptions of finance directors of the achievement of these objectives.

Table 75: Mean Analysis – Influence on Public Trust and Participation

	Min-Max	Mean	Standard Deviation
The UoR exercise has improved			
i. Public trust in my local authority	1-4	2.55	0.83
ii. Public participation in my local authority's activities	1-4	2.05	0.76
iii. Public trust in local government generally	1-4	2.42	0.69
iv. Public participation in activities organised by local government generally	1-3	2.00	0.67

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

Mean analysis reported in Table 75 evidenced the disagreement, relatively lower means for all the statements, and standard deviations below 1 indicate harmony in views. From the

Min-Max column, not a single respondent marked '5=strongly agree' for any of the statements on trust and participation. A director responded:

> "I don't think the public want to know or care about it." [DOF 5]

And:

> "I have not seen the evidence, in my experience. I know we tried to invite participation in the budget through budget consultation and I think it is a general problem, a national problem. I have not seen UoR directly as being the cause or the guiding light." [DOF 2]

Many directors shared similar views to the two quotations above. This problem link to the previous section 6.2.3 in terms of financial reporting requirement which is 'beyond comprehension' of members of the local public and on the issues of the UoR indicators representing less of public expectation but more for the central government's and the AC's views of best-practice (Section 6.3.1). An explanation from one of the directors which was shared by many:

> "I don't think it is useful for the public. It is more useful for me as to how I am doing as opposed to other councils are doing. It is more of the professional pride. It allows you to do league tables, compare yourself with neighbours but not to local citizens. I don't think the press have even picked on it in terms of such and such is better than us or we are better than them." [DOF 5]

The explanation from another director also supports and elaborates the view above:

> "The way the Commission are going down of making information on their website more accessible in terms of red and green flag may help. I think the difficulty is that the Commission view of good practice of UoR is a professional view whereas the public view is 'what is the impact on their council bill- their tax bill'. The public are not aware of government grant formulae and other things that have far more impact other than council tax bill." [DOF 6]

The response above highlights the needs for reconciliation between what is presented and what is comprehensible by the local citizen. Many directors explained that they re-produced their annual accounts in a summarized, simplified format and produced pamphlets on the budget, planning and other achievements at their local authority to attract public's attention. A few directors suggested that having a workshop with the local public could help in delivering messages about the assessment and stimulate their interest and understanding.

Although the majority disagree with the two statements, a few directors do view that the UoR that requires extensive reporting and the publication of ranks should improve public trust in them. Their responses were influenced by their own expectations but they agreed with the majority and accepted the fact that they have not seen any evidence of improvement either in public trust or public interest in the UoR and CPA. Many expressed disappointment that the local public would not care if they are doing well, would have no interest or concern to the local council, only if something goes wrong, then the press would 'in no time' make that a headline in their newspaper. The directors also expressed their concern over negative publicity which might influence an auditor's perception and therefore affect the judgement on local authorities. It was difficult to repair the tarnished reputation they had when things went wrong. Some directors admitted that bad reputation and poor results from the assessment

was linked to a decline in their staffs' motivation which the directors have to work extra hard to improve.

6.2.5 Voting Decisions

Statements in this section were generated to explore whether the publication of assessment results is reflected in the public's voting decisions. Responses to this statement would confirm the views on the importance of the assessment to the public at large. Table 76 and 77 display the results analysed from responses to the statements.

Table 76: Influence on Voting Decisions

	Frequency (%)		
	Agree	Neither Agree nor disagree	Disagree
The published Comprehensive Performance Assessment results have influenced the decision of local electors			
i. on whether to vote in local elections	0.0	10.0	90.0
ii. on which political party to vote for	0.0	10.0	90.0

Notes: N=20
Source: Interview Data, 2008

As revealed in Table 76, a huge majority (90%) disagree that the published CPA results have influenced the decision of local electors on (i) whether to vote in local elections, or (ii) which political party to vote for. It is interesting to note that nobody agrees that it would. The directors viewed UoR and CPA as being of no interest to the public, and therefore have no influence on the public's decision on politics or politicians. A director responded:

> "People are willing to stand on which impact them more compared to CPA. It is very much based on the politics of the council rather than the council being classified as fair or whatever." [DOF 5]

The view is supported by another director who said:

> "Totally, they quite frankly don't care. There is no impact on whether people would vote; if it did we would have seen the turn-out increasing. It is not, it remain relatively stable in all areas. In terms of which party to vote for, the controlling groups are the greater majority in this council as well as in my previous council." [DOF 1]

Respondents' views in this section harmonized with their responses in the previous section on whether the UoR exercise has improved public trust and participation, which also attained a very high percentage of disagreement. A mean analysis was further done to check on means of responses and standard deviations, reported in Table 77.

Table 77: Mean Analysis – Influence on Voting Decisions

	Min-Max	Mean	Standard Deviation
The published Comprehensive Performance Assessment results have influenced the decision of local electors			
i. on whether to vote in local elections	1-3	1.80	0.62
ii. on which political party to vote for	1-3	1.70	0.66

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

Low means are reported for both statements, confirming the high percentage of disagreement. The 'Min-Max' column also shows there are respondents who marked '1=strongly disagree' for both statements. These indicate the insignificance of the CPA results to politics or politician. Unanimity in views for this category is evidenced by the low standard deviations for both statements.

6.2.6 Public Inspection

Local citizens were given rights to inspect their council's statement of accounts during certain periods before auditors issue their final reports. Exposure to the public in terms of greater transparency is believed to be a stimulus to performance (Heald, 2006). Hence, statements were generated to call for views on issues related to public inspection of the statement of accounts produced by local authorities. Table 78 and 79 report the results analysed from responses to both statements.

Table 78: Public Inspection of the Statement of Accounts

	Frequency (%)		
Statements	Agree	Neither Agree nor disagree	Disagree
The requirement for public inspection of the council's pre-audited statement of accounts contributes to improved financial reporting performance	35.0	15.0	50.0
Some local electors use their rights to inspect the council's pre-audited statement of accounts	45.0	20.0	35.0

Notes: N=20
Source: Interview Data, 2008

Table 78 shows most, 50 percent, disagree that 'the requirement for public inspection of the council's pre-audited statement of accounts contributes to improved financial reporting performance'. The directors explained that their council's statement of accounts was neither improved for public inspection reasons nor does the requirement force them to have their accounts reported properly. A director responded:

> "They have all come with ulterior motive and use that as a vehicle to get their hands on invoices etc for other purpose, rather than to look at the net worth, the capital outlook, the balance sheet. It basically for their personal use or they use it for their agenda." [DOF 5]

Many of the directors said that the local public does not contribute to improvement in their financial reporting. However, a few of them share the opposite view, for example:

"I think it does, nobody inspected our accounts, so it is really perception thing. We try our best to make things understandable and we try our best to make sure that everything is there just in case somebody does come along. In reality nobody does, but it does put pressure on us because the day that somebody does come along and we haven't got it right, then we will have problems, so I think it does." [DOF 1]

The respondents reflect the forces that the requirement has had on them to make sure things are done right the first time. Other directors, who disagree with the statement, did not deny that they make sure that their pre-audited statement of accounts open for public inspection is made of reasonable quality similar to the final audited statement of accounts. Mean analysis for this statement as reported in Table 79 revealed a low mean of 2.65 which indicates disagreement to 'the requirement for public inspection of the council's pre-audited statement of accounts contributes to improved financial reporting performance'.

The response above brings us to the second statement discussed with the directors: 'some local electors use their rights to inspect the council's pre-audited statement of accounts' where the most popular choice is agreement, 45 percent. A slightly lower percentage, 35 percent disagree. As indicated in the above response, local authorities rarely have their account inspected. Many respondents explained that even if their accounts were inspected, the inspection is not done for accounting reasons but with ulterior motives as mentioned in responses quoted from DOF 5 above.

Table 79: Mean Analysis – Public Inspection of the Statement of Accounts

Statements	Min-Max	Mean	Standard Deviation
Some local electors use their rights to inspect the council's pre-audited statement of accounts	1-5	3.05	1.39
The requirement for public inspection of the council's pre-audited statement of accounts contributes to improved financial reporting performance	1-4	2.65	1.18

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

Although the popular choice is agreement to 'some local electors use their rights to inspect the council's pre-audited statement of accounts', mean for that response as shown in Table 79 is 3.05, indicating middle view. A relatively higher standard deviation for that statement also indicated mix in views. Respondents agree that some local electors exercise the rights but only a maximum of two in some years while none in many other years, while some respondents disagree because they have never had any request from local electors. A director said:

"Very rarely that they inspect. Tend to be individuals who got an issue about service matter, comment about legal and service issue rather than the accounts etc. I think the accounts themselves are of no interest to the general public as long as the council is sound financially and able to continue providing services without excessive rise in council tax" [DOF 6]

The responses above indicate that public do not inspect the accounts and that the public will be concerned only when it involve issues directly related to them, like the council tax. Some respondents explained that the statement of accounts itself is incomprehensible to the general public:

> "I don't think that many members of the public now would understand the accounts. We have got one person this year, the first time in four years and that is politically motivated. I have worked with many councils, it is the usual few, because of specific aspects, such as a listed building is being closed or a road network. It is a local social interest that normally causes public inspection." [DOF 2]

And the view is supported by many, for example:

> "I think the statutory format of local authorities account doesn't make them immediately accessible to the public." [DOF 16]

And:

> "Many people do not appreciate (the accounts) and do not feel they can look at it. We have put this traditional accountancy barrier up between us and the residents." [DOF 3]

Some directors explained that they normally hold sessions to present the accounts to their councillors as not everyone understands accounting terminology and its presentation. Local authorities have taken steps to encourage the interest of the general public in their financial report by publishing a summary of the statement of accounts to help local electors understand and appreciate the council's operations. Nevertheless that does not attract much interest or response from the local electors. A director said:

> "We publish a summary of the accounts every other year, but not many people actually look at it." [DOF 8]

Respondents suggest that the local public are interested much more in a clean and healthy environment and good facilities. Many of the directors agree that very few inspections of the accounts lead to questioning and objections to the pre-audited accounts and that some local electors use the channel to express their dissatisfaction or disagreement with the council or individuals in the council. According to the respondents, many of the questions were unrelated to statement of accounts and not entertained by the auditors, although on several occasions auditors have had to investigate and clarify the effect it would have on the statement of accounts, which increases audit fees charged to the local authority. Thus, the following section will discuss the impact of local electors' objection on the council's statement of accounts.

6.2.7 Impact of Local Electors' Objections

Objections would have several impacts on the statement of accounts because it requires external auditor's investigation on the inquiry which takes up some time. Though not many local authorities experienced objections in the study region, when there is an objection, it does influence several aspects of certification. Thus, statements were posed to explore respondents' views on the rights to object the local authorities' accounts. Table 80 and Table 81 detail results of analysis for responses on the statements.

Table 80: Impact of Objections

Statements	Frequency (%)			
	Agree	Neither Agree nor disagree	Disagree	No view
Generally, objections to the local authority's pre-audited statement of accounts would cause delay in				
i receiving approval from councillors	25.0	20.0	55.0	
ii obtaining certification from the auditor	65.0	20.0	15.0	
iii publishing the statement of accounts	45.0	30.0	20.0	5.0
Generally, some objections to the pre-audited statement of accounts signal problems with the local authority's				
i financial management	10.0	25.0	65.0	
ii financial accounting system	10.0	25.0	65.0	

Notes: N=20
Source: Interview Data, 2008

A majority (55%) of respondents disagree that '*objections to the local authority's pre-audited statement of accounts would cause delay in receiving approval from councillors'*. Many directors explained that the pre-audited statement of accounts goes through councillors prior to public inspection, and it rarely has to go back for councillors' approval again after the public inspection exercise. The councillors generally leave financial matters to the finance department. Another reason is that local authorities very seldom get an objection on their statement of accounts. So, not many directors have experienced this and some of them only expressed their views based on others' experiences. The mean of 2.50 reported in Table 81 supported the disagreement to the statement. A director responded:

> "I don't think it would cause particular any delay with the councillors, because in this authority they are relatively relaxed, and they have confidence in the way that we run the financial system and if we say, "Actually we have got an objection, therefore what we need to do is to approve the account with the exceptional of this particular item", because we have got a history of managing the council's finance, well, they would say, "that is ok"."
> [DOF 1]

This response, besides expressing disagreement that an objection would cause delay in obtaining councillors' approval also aligned to the shared responses that some inspection requested were of personal interest and many objections received were then proved baseless by the auditors after they conducted investigation.

When auditors need to investigate the objection, certification will be delayed. This is proved by their responses to '*the objections to their pre-audited statement of accounts would cause delay in obtaining certification from the auditors'*, where a high majority (65%) agree to this statement, as shown in Table 80. The auditor has to spend time to conduct investigation into the matter raised before they could confirm if the objection is valid and the issue raised

would affect statement of accounts. The high mean (3.60) for this statement supported the agreement. A director responded:

> "We had one objection. A quite vocal citizen who will challenge the whole council across the whole range of issues and this is another vehicle how you could challenge and disrupt the council. He argued because of his clash with the Chief Executive, so he uses all channels to voice out his clash. The auditor investigated and concluded 'no case stand'. That cost us up to £5000 to pay additional fees to the auditor for their extra time incurred to investigate." [DOF 8]

Additional auditors time would add to their fees and causes delay in obtaining certification and publication of the accounts. Another director explained:

> "Sure, it would cause delay in certification and publishing the accounts. It would be because if the auditors were not happy then they will not certify the accounts. If there was material problem, we wouldn't publish them either." [DOF 11]

Table 81: Mean Analysis and Rank Order – Impact of Objections

Rank	Statements	Min-Max	Mean	Standard Deviation
	Generally, objections to the local authority's pre-audited statement of accounts would cause delay in			
1	Obtaining certification from auditor	2-5	3.60	0.88
2	Publishing the statement of accounts	1-5	3.32	1.06
3	Receiving approval from councillors	1-5	2.50	1.24
Rank	**Generally, some objections to the pre-audited statement of accounts signal problems with the local authority's**			
1	Financial management	1-5	2.15	1.14
2	Financial accounting system	1-5	2.15	1.14

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

The last statement in that category is that 'objections to the local authority's pre-audited statement of accounts would cause delay in publishing the statement of accounts'. Many of the respondents chose to agree (45%) agree and a smaller percentage (20%) disagreed. Mean of 3.32 indicated low agreement and mixed views. Respondents who had experienced an objection explained that local authorities can publish their statement of accounts without formal audit certification if their auditor is satisfied that the objections will not affect the true and fair view of the statement of accounts. Formal certification would be issued once the processes required to deal with that objection are completed. A rank order generated from the means (shown in the first column of Table 81) for all the statements related to the impact of objection to the pre-audited statement revealed that it impacted the most on the delay in certification of the accounts, followed with delaying the publication of the statement of accounts and the least on delay in obtaining approval from councillors.

The second category asked was that *'generally, some objections to the pre-audited statement of accounts signal problems with a local authority's: (i) financial management; and (ii) financial accounting system'*. Both statements show that a large majority disagree, 65 percent for both financial management and financial accounting system. A director responded:

> "That is not necessarily the case. People have objections but that doesn't mean we have problems. There is some objection to it. It is as simple as that." [DOF 1]

This response also supports the notion that objections raised by local electors are motivated by personal interest. Another director explained:

> "It is more because of the local issue, not the management system. There are some cases but it tends to be politically motivated." [DOF 2]

Not many directors commented on this issue perhaps because they have no doubt that the objection (if there is one) does not occur because of problems with the local authority's financial management and financial accounting system, nor would they rely on an objection to signal problems in their financial management or financial accounting system. However, some respondents suggested that objections do make the officials more careful with the financial management aspects of the local authority. Mean analysis for both statements also confirms the disagreement. Objections from members of the local public do not seem to be of huge concern among the respondents and their local authorities. The objections may stem from a lack of understanding of accounting terminology and the less comprehensible nature of the statement of accounts among local citizens which also causes lack of interest in the annual accounts of their council. Local citizens may be content with having their council delivering all the basic services required from a local authority and they would not wish to bother themselves with other issues at the council which are not directly related to them.

6.2.8 Public Interest Report

Auditors have rights to issue a 'public interest report' to raise public concern about a financial and accounting issue at a local authority if they believe the public has to be informed about the matter. A 'public interest report' is normally issued when a matter is significant and not limited to the statement of accounts. Very few local authorities in the study region were issued a 'public interest report', but views related to the report needed exploration as it could relate to certification audit. Hence, seven statements were generated to probe views on the impact of having a 'public interest report' issued by their auditor. Table 82 and Table 83 report the results.

Table 82: Impact of the Public Interest Report

If a local authority were to be the subject of a 'Public Interest Report' issued by the auditor, that event would	Frequency (%)			
	Agree	Neither Agree nor disagree	Disagree	No view
i. alert the local authority to weaknesses in its financial accounting system	35.0	40.0	20.0	5.0
ii. alert the local authority to weaknesses in its financial management	60.0	30.0	5.0	5.0
iii. damage the local authority's reputation	95.0	5.0	0.0	
iv. pose problems for the finance department	55.0	35.0	5.0	5.0
v. pose problems for the local authority's senior management	80.0	10.0	5.0	5.0
vi. pose problems for the elected councillors	65.0	25.0	5.0	5.0
vii. indicate that the local authority has a poor relationship with its auditor	15.0	35.0	50.0	

Notes: N=20
Source: Interview Data, 2008

Mixed responses were received when respondents were probed *'if a local authority were to be the subject of a 'Public Interest Report' issued by the auditor, that event would alert the local authority to weaknesses in its financial accounting system'*. Table 82 revealed that that the most popular choice is to neither agree nor disagree (40%) followed by agree (35%). Respondents commented that that it had never happened to them but weaknesses in financial accounting systems could be one of the reasons for their auditor to come to a decision to inform the local public. A director said:

> "We were issued a 'public interest report'. But that was with our 'decision making framework' and nothing to do with financial system." [DOF 3]

Mean of 3.26 reported in Table 83 confirmed the mixed views with inclination towards agreement, resulting in the highest standard deviation for questions in this category.

From Table 82, a majority (65%) of respondents agree that *'if a local authority were to be the subject of a 'Public Interest Report' issued by the auditor, that event would alert the local authority to weaknesses in its financial management'*. Respondents explained that financial management is highly likely to be an issue which an auditor thinks that local public should be informed about as it would affect them. That however, would not necessarily affect the statement of accounts, and normally involved higher levels of management. Mean of 3.74 reported in Table 83 supported the agreement.

A high percentage (95%) of the respondents agree to *'if a local authority were to be the subject of a 'Public Interest Report' issued by the auditor, that event would damage the local authority's reputation'*, as reported in Table 82. Nobody disagrees with the statement. A respondent from a local authority which had received a public interest report said that the report is considered a big issue at their local authority and the impact would last for many

years. A high mean (4.40) and relatively low standard deviation revealed in Table 81 indicate high agreement and unanimity of views. A director responded:

> "If you get a 'public interest report', it is a problem for you and the whole organisation in terms of reputation for a start, whether you like it or not." [DOF 17]

Table 82 also shows that a majority agree *'if a local authority were to be the subject of a 'Public Interest Report' issued by the auditor, that event would:* (iv) pose problems for finance department (55%); (v) pose problems for the local authority's senior management (80%); and (vi) pose problems for the elected councillors (65%). A higher majority is attained for *'problems for the local authority's senior management'* as respondents said the public interest report normally concerns manipulating the systems or decision making which normally would occur at higher management levels. Majority agree to all the three statements indicating that a public interest report, besides damaging a local authority's reputation, is also a setback for the finance department, the local authority's senior management and the elected councillors.

The last statement probed in this category is *'if a local authority were to be the subject of a 'Public Interest Report' issued by the auditor, that event would indicate that the local authority has a poor relationship with its auditor'*. Table 82 reported a half of the respondents (50%) disagree to the statement and 35 percent neither agree nor disagree. A director said:

> "I do not think that it depends on relationship. That is about professional ethics. I will put my faith in the auditor." [DOF 2]

Many respondents explained that auditors should have their own ethical stand and they disagree with the statement because public interest reports cover greater aspects than financial accounting alone. However, respondents agree that having good relationship with the auditor could help avoid a local authority from getting the report. Good relationships help in communication and discussion with their auditors, thus become a plus factor for local authorities. The auditor normally discusses the matter with local authority and advises the local authority to amend the accounts. In the event where it cannot be resolved, a public interest report is unavoidable. Nevertheless, respondents also explained that they support their auditor's issuing the 'public interest report' because it would alarm the local authority's high officials, so they would be more careful.

Table 83: Mean Analysis and Rank Order – Impact of Public Interest Report

Rank	If a local authority were to be the subject of a 'Public Interest Report' issued by the auditor, that event would:	Min-Max	Mean	Standard Deviation
1	Damage the local authority's reputation	3-5	4.40	0.60
2	Pose problems for local authority's senior management	2-5	4.16	0.83
3	Pose problems for elected councillors	2-5	4.00	0.94
4	Alerted the local authority to weaknesses in its financial management	2-5	3.74	0.81
5	Pose problems for the finance department	2-5	3.68	0.82
6	Alerted the local authority to weaknesses in its financial accounting system	1-5	3.26	1.10
7	Indicate that the local authority has poor relationship with its auditor	1-4	2.45	1.00

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

Mean analysis is used to rank all the seven statements on the impact of a 'public interest report'. The rank order for all the seven statements is reported in the first column of Table 83. According to the respondents' view the highest impact goes to damaging the local authority's reputation, followed by posing problems to local authority's senior management and elected councillors.

6.2.9 Use of Resources, Worthwhile Innovation?

Respondents were asked whether 'the UoR assessment has been a worthwhile innovation'. Table 84 and Table 85 report the results.

Table 84: Is the Use of Resources a Worthwhile Innovation?

	Frequency (%)		
	Agree	Neither Agree nor disagree	Disagree
The UoR assessment has been a worthwhile innovation	75.0	20.0	5.0

Notes: N=20
Source: Interview Data, 2008

As revealed in Table 84, a majority (75%) of the respondents agree that the UoR assessment has been a worthwhile innovation. Despite reservations they have expressed on various aspects probed to them about the assessment regime, majority fail to disagree that UoR assessment has been a worthwhile innovation. It has helped to provide them with bases to focus (through the KLoEs) and that has contributed to the improvement shown in the AC's published scores. Many respondents also view the assessment regime as 'it is better to have something than no assessment at all' with the exception that there is room for improvement in the current assessment.

Table 85: Mean Analysis – Is the Use of Resources a Worthwhile Innovation?

	Min-Max	Mean	Standard Deviation
The UoR assessment has been a worthwhile innovation	2-5	3.80	0.70

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

Table 85 reports a mean of 3.80 for the statement supporting the majority agreement, and low standard deviation indicating unanimity. Min-Max column in Table 85 shows that none of the respondent marked '1=strongly disagree'. A respondent said:

"Definitely, we gained lots and lots of improvement and discipline." [DOF 2]

And the agreement is supported by another respondent:

"It generally improved standards of professional practice and also it has got 'financial management' more into corporate agenda for local authorities."[DOF 6]

Another director who agrees that UoR is a worthwhile innovation explained:

"I think there are a number of improvements need to be made, to be more flexible. It has been worthwhile innovation, in that it has force local authorities to concentrate in that issues and they are not necessarily public faces thing, a lot of the things are internal to the organisation, governance and the like."[DOF 1]

The response indicates their desire that UoR be more flexible and incorporates local issues into the assessment indicators. The view is supported by another director who said:

"It helps some areas but hinders some others."[DOF 15]

Many directors share the view above. Discussion throughout this chapter also confirms the notion that some aspects were improved but dissuade other aspects. An explanation from another director added to the belief:

"The UoR does promote improvement but it is seen as a compliance process rather than offering any true fundamental benefit to the Council. An example, we had an Audit Committee in operation, but had not formally adopted a set of TOR (Terms of Reference). We failed on this, where other council had their TOR in place, but had not physically met as an Audit Committee, got the tick from their auditor." [DOF 5]

This view points to doubts in terms of rigidity of the assessment which depends on documentation rather than actual performance. Another director added:

"Although the CPA, Use of Resources assessment has encouraged local authorities to improve the quality of their financial management, it still remains a relatively subjective judgement. As such, it is neither understood nor trusted by the majority of residents." [DOF 19]

Many respondents extend their concern over the value of the assessment regime; subjectivity in auditors' judgment had made the assessment less convincing to the respondents as a proper performance measures, and the assessment regime has been unable to impress the local public. This is consistent with the argument presented by Kelly (2003) that the current role of AC to improve the standards and quality of services provided

by local authorities presents several significant challenges to local authorities, central government and the AC itself.

6.3 What factors contribute to the variations in local authorities' performance?
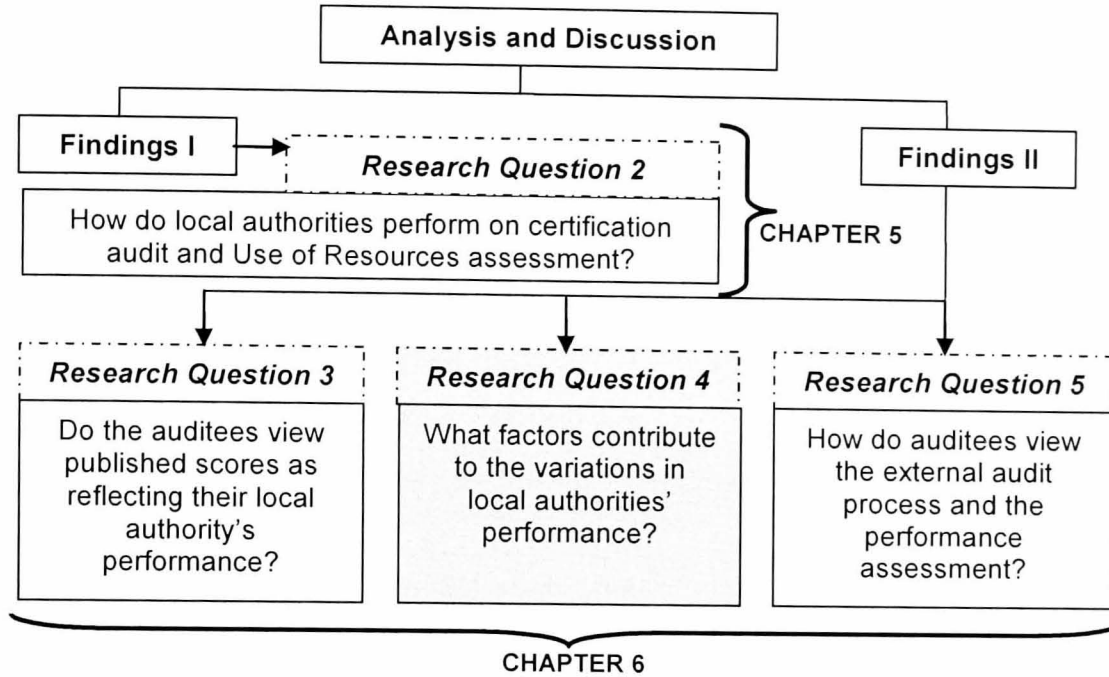
This section discusses views on the factors contribute to the variations in local authorities' performance, which includes the assessment rules of key lines of enquiries, requirement for continuous improvement, influence on the relationship with auditors, self assessment, consultation, appeal, resources, effort and focus.

6.3.1 Key Lines of Enquiries

The AC provided local authorities with detailed 'key lines of enquiries' (KLoEs) for the annual external auditors' assessment for UoR. The KLoEs serve as guidance for local authorities to find the area and factors they should work out. Thus, five statements were generated to call for responses from respondents, the directors or head of finance. Table 86 and Table 87 present frequency and mean analysis for responses.

Table 86: Key Lines of Enquiries

The assessment indicators of Key Lines of Enquiry (KLoE) have	Frequency (%)		
	Agree	Neither Agree nor disagree	Disagree
i. provided my local authority with a clear picture of what is expected of them by local citizens	10.0	20.0	70.0
ii. provided my local authority with a clear picture of what is expected of them by central government	70.0	10.0	20.0
iii. increased the workload of my local authority	90.0	0.0	10.0
iv. reduced my local authority's freedom in deciding what is best for local citizens	60.0	5.0	35.0
v. help my local authority to focus on what should be improved in order to obtain better scores	100	0.0	0.0

Notes: N=20
Source: Interview Data, 2008

The first two statements explore their views on whose expectation is reflected in the KLoEs. A majority (70%) expressed a view that KLoEs reflected the central government expectation and not the local citizens (70%). A director said:

"If you were to wait at the streets of our local authority and survey what is important to local citizens, the issues covered by UoR would barely get a mention if at all. It is necessary to listen to the public and our council put an awful lot of money into achieving that. When we do that, it is not the UoR issue that come out" [DOF 6]

Another director supported:

"If that provided clear picture from local citizen, local citizen would have designed them. They don't even know what the UoR are. What gives you a clear picture is the service that you do; where you ask people what they think of services and local issues and the like. It (the KLoE) is the expectation of central government." [DOF 1]

And:

"It is not the language of local citizens, they weren't consulted" [DOF 2]

And:

"Reflected what they (local citizens) want? The Commission has not done any consultation with the local public in terms of what they want." [DOF 5]

Another director concluded after his long explanation:

"I suppose there is different between what the local citizen wants and the central government ask us to do. There are a lot of local things which are not high on national priority, there's a lot of national priority which are not high on the local lists." [DOF 15]

Table 87 shows in the Min-Max column that respondents marked 'strongly disagree' when asked for whether 'KLoE provided my local authority with a clear picture of what is expected of them by local citizens', compared to '... what is expected of them by the central government' which a majority of respondents agree. This indicates their strong disagreement to the first statement. A very low mean (2.15) shown in Table 87 for the first statement also evidenced respondents' disagreement. The directors suggest they should listen more to the local citizens and many of the KLoEs do not address local citizen's needs. They also claimed that they usually focus more on indicators which are related to their services to local citizens. Evidence of consultation the local authorities had with local citizens is obvious from their responses:

"With our consultation, they want lower tax, a happy council that empty their bins, keep their streets free of litter rather than those behind the scene like finances" [DOF 15]

However, some directors did express the difficulty of getting views from local citizens:

"I don't think the citizens are bothered about UoR. I don't think they understand, or are aware of it. I don't think it benefited them." [DOF 5]

And another director mentioned:

"Listen to local citizens? Yes, if they can be bothered to talk to us ... It is unanswered or a conundrum. You can get people to talk on local issue that affect them. You never are going to get people interested in the final accounts; it is not a topic that interests people." [DOF 7]

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It has been difficult to engage local citizens in discussion on UoR because it does not directly reflect their interests. As mentioned in the quote above, local citizens would be willing to talk about issues that affect them. And majority respondents claimed that local citizens would rather local authorities have their streets' cleaned and garbage emptied than publishing hundreds of pages of annual accounts (reflected in quote from DOF 15 and DOF 7 above).

The third statement asked was that 'the assessment indicators of KLoE have increased the workload of my local authority'. As evidenced in Tables 86 and 87, a large majority (90%) agree that it does, and a mean of 4.20 indicates strong agreement, supported by a relatively low standard deviation (0.89) which shows unity in views. A director has said:

> "All these boxes to tick, KLoEs which we didn't have before, we have to satisfy them. To satisfy them, we actually have to do more work than we actually did previously." [DOF 11]

And:

> Yes, there's area where we never would do (that) we have to now because of the requirement. We want to be a '3', we don't want to hold the council back, and therefore we have to achieve a better score and work harder." [DOF 9]

But the respondents do not view the extra work requires of them from the assessment negatively:

> "Yes, but is not a bad thing, it does produce work but in many ways it is work that has beneficial outcomes in many ways. Undoubtedly we have better processes because of some challenges in the UoR. But it has taken time to deal with." [DOF 7]

And:

> "Some things are useful, helped in terms of structuring how finance blends with the rest of the organisation and to appreciate the work of finance, etc" [DOF 8]

Respondents view the assessment has made them efficient in some of their functions but several have suggested that this led to a sacrifice of front line services, as one director has said:

> It increases our workload, because we have to find resources for this and we can't increase our resources because we are kept within certain amount. Basically what it does is just restrict the amount of resources we put onto front line services." [DOF 1]

So, the increased workload is may be good for their improvement but affects front-line services. In line with increasing workload and having to satisfy the indicators in KLoE, a statement was created to encourage discussion as to whether the indicators have reduced local authority's freedom in deciding what is best for local citizens. The responses received, as reported in Table 86, majority (60%) agree that it does. A director responded:

> It is, very much it is a set of rules coming down from the central government and its body, saying you must do x, y and z." [DOF 13]

The response above suggests the pressure from the central government that local authorities have to comply which is to the quote from DOF 9 above. Another director complained about the requirement to produce an extensive annual report which that director believed to be unnecessary for the public sector and alien to the local citizen:

> "The fact that our annual accounts is getting thicker and thicker is beyond comprehension. We are not here to produce 200-250 pages of accounts where members of the public neither concern nor understand them" [DOF 7]

Some responses suggest that they were forced into doing what they believed to be unnecessary but would be punished if they did not:

> "Sometimes we have to follow what the Commission sees as best practice rather than what the local citizens want. Once we were straying more from UoR into a more authority-wide position and we had a poor score couple of years ago" [DOF 14]

Although many directors agree that their freedom to decide what is best for their local authorities has been limited by the KLoE, a director who has a different view suggested that they should be taking the assessment and KLoEs as opportunities to show their own view of excellent and should not feel restricted. The view is not shared by many, although some did say that they give up seeking to improve their scores when the indicators get too unreasonable for them to follow. Many local authorities are content at level '3' for they believe achieving a '4' to be meaningless to local citizens and would require resources beyond their financial capacity. They prefer not to sacrifice front-line services for higher scores. The issue then brought us to the last statement on their strategy, whether 'the assessment indicators of KLoE have helped my local authority to focus on what should be improved in order to obtain better scores'. A hundred percent of the respondents agree to this statement. One of them said:

> "Yes, definitely, it directs us to areas where we have to improve, thus giving us opportunity for better scores with the next assessment" [DOF 12]

And they explained that the indicators are helping them to improve and they avoid targeting better scores only without making improvement from the core. However, they admit some elements of target and gaming, for example:

> "My focus is not about better score, that is great, that is the measure, but there's lots of other measure from the citizen rather than the Commission's that I am more passionate about" [DOF 2]

The KLoEs informed them of areas to target while the evidence detailed what they should do. The last statement attains the highest mean, 4.35, and lowest standard deviation, 0.49, as shown in Table 87.

Table 87: Mean Analysis and Rank Order – Key Lines of Enquiry

Rank	The assessment indicators of Key Lines of Enquiry (KLoE) have:	Min-Max	Mean	Standard Deviation
1	Helped my local authority to focus on what should be improved in order to obtain better scores	4-5	4.35	0.49
2	Increased the workload of my local authority	2-5	4.20	0.89
3	Provided my local authority with a clear picture of what is expected of them by central government	2-5	3.60	0.94
4	Reduced my local authority's freedom in deciding what is best for local citizens	2-5	3.40	1.17
5	Provided my local authority with a clear picture of what is expected of them by local citizens	1-4	2.15	0.93

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

As these statements are related to KLoEs, a rank order is generated from the mean analysis to confirm which aspects are considered to be the most helped by having the KLoEs and otherwise. The report in Table 87 evidenced that KLoEs contributed most in assisting local authorities to focus on what should be improved to obtain better scores, but increased the workload of their organisation. The KLoEs also 'provided a clear picture of central government' expectation and thus 'reduced local authority's freedom in deciding what is best for local citizens', and the respondents view the KLoEs as not providing a clear picture of local citizen's expectation.

6.3.2 Other Issues Related to Indicators and Assessment Rules

Besides issues directly related to KLoEs, there are other issues which arise from the indicators and assessment rules. Thus, opinions were sought on (i) the evolution of the indicators; (ii) the impact of the assessment on the authority's relationship with external auditors; (iii) the extension of the self assessment to other UoR themes; (iv) the fairness of the rules; and (v) the fairness of the auditor's interpretation of the rules. Table 88 and Table 89 report analyses of responses to the statements.

Table 88: Issues related to the Performance Indicators

Statements	Frequency (%)			
	Agree	Neither Agree nor disagree	Disagree	No view
A local authority's score will drop if it does not continuously improve its performance on the indicators	80.0	5.0	15.0	
The assessment has helped improve my local authority's relationship with the external auditor	30.0	50.0	20.0	
The Self Assessment currently used for the Value for Money (VFM) theme should be introduced for other UoR themes	50.0	25.0	20.0	5.0
The assessment rules for UoR are fair	45.0	25.0	30.0	

Notes: N=20; Source
Interview Data, 2008

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As revealed in Table 88, the majority (80%) agree that their scores will drop if they do not continuously improve their performance on the indicators. A director responded:

> "Yes, because the bar is being raised all the time." [DOF 1]

This indicates that they cannot be content with their level of achievement in previous assessments even if they want to maintain the same score. This is because the AC's UoR indicators keep moving to higher requirements each year. Another director responded:

> "I think the criteria are getting harder to meet year after year. Some of the criteria that previously were level 4 are now in level 3. Some of them are now in bold type which means if you fail that one criterion you can't get a level 3 or whatever." [DOF 16]

Respondents agreed with the notion of continuous improvement but they expressed concern that the evolution was made too soon.

> "It is good to keep changing the indicators so we are encouraged to improve continuously, but changing the indicators too soon has pushed us towards getting the indicators done without understanding it. We can't avoid target and gaming here, because it affects our reputation if scores drop." [DOF 17]

When asked if the indicators were made too difficult for them to achieve, a director said:

> "Some of them are achievable; others would only be achievable with vast increases in expenditure. For example ... we have taken a view that the cost of doing either of those would outweigh the benefit that we would get from that. That's not the route that we are going down despite the Commission pushing us heavily down that. So, generally we thought about what the public wants." [DOF 18]

Respondents agree that some scores are achievable which they try to reach, while others that are not will be weighed accordingly to their achievability and main objectives. Mean analysis for the statement reported in Table 89 is 3.80, indicating strong agreement to the statement, supported by low standard deviation showing unanimity.

Table 89: Mean Analysis – Issues related to the Performance Indicators

Statements	Min-Max	Mean	Standard Deviation
A local authority's score will drop if it does not continuously improve its performance on the indicators	2-5	3.80	0.89
The assessment has helped improve my local authority's relationship with the external auditor	1-4	3.05	0.83
The Self Assessment currently used for the Value for Money (VFM) theme should be introduced for other UoR themes	1-5	3.37	1.07
The assessment rules for UoR are fair	2-4	3.15	0.88

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

Respondents were asked whether the assessment has helped to improve their relationship with the external auditor. This statement fetched a mixed response, 50 percent marked neither agree nor disagree. Mean of 3.05 confirms the mixed in views. A director said:

> "No, it doesn't matter. My relationship with my auditor is that I want to be neutral with him. I am not going to chat him up, neither would I antagonise him. UoR for me doesn't change it." [DOF 7]

This view was supported by another director:

> "The assessment did not contribute to a good relationship with auditors. We normally maintain good relationship with them. It does make the relationship bitter if a local authority disagrees on certain issues." [DOF 17]

Another director responded:

> "Last year because our score went down, there was deterioration in our relationship. We try hard to repair our scores, at this time last year there was definite damage to that relationship". [DOF 16]

The third statement was whether the self assessment currently done for VFM should be introduced to other themes. Half the respondents agreed. A mean of 3.37 indicates slightly higher agreement compared to the second statement in Table 89. Respondents said the self assessment provided them with an opportunity to present and justify their achievement which they agreed at times helps them to attain better scores than without presenting the self assessment report. Many respondents said that they have been doing a self-assessment for the other themes as well although it is not required because it allows them to update their performance and prepare necessary documentations for external auditors. However, a few local authorities cannot afford to do the self assessment because of their limited resources in terms of staffing to pull out all the evidence to do self assessment. A director responded:

> "We agreed with our auditor that each year we would do self assessment for all themes. That was something I suggested in 2002. It is the arrangement that suits both ourselves in that we make sure by doing that the auditors consider the full body of evidence and also it saves the auditors' time in gathering that evidence. They asked us to do the self-assessment first and then they critically evaluate that self-assessment and evidence. It would reduce audit fees indirectly". [DOF 6]

It is interesting in the quote above, their view that audit fees could be reduced if they do self-assessment because it lessened the audit time from the auditor's side. Another director also noted that it helps them in terms of improvement planning for their local authority:

> "We did self-assessment not only for the UoR but so that we can understand where our strengths and weaknesses are and we can start doing something about the area where we may not be meeting the criteria now but aimed for the future. It is for learning and improvement." [DOF 16]

Respondents were also asked their views as to whether 'the assessment rules for UoR are fair'. Only 45 percent agreed with this statement and a mean of 3.15, indicating more of mixed views, supported by a relatively low standard deviation of 0.88. A director said:

> "I think the assessment process needs to be done, I personally don't feel we have been hard done by because to me there is ample opportunity to get your point across to the auditor and if you have done your job properly, there's nothing to worry about" [DOF 7]

Many directors shared a similar view:

> "It is like an exam question. You have got the question, answer them. How can that not be fair, we all got the same questions? The fact that someone got a 3 and you've got 2, to me, it is: he is better than you at it." [DOF 17]

However, they agree that some of the indicators are difficult to understand, which could create disputes in interpretation. A director responded:

"Some questions are literal, for example, about the audit committee; and some are interpreted differently by the auditors." [DOF 5]

Another director responded:

"There ought to be better recognition of the council's position in the indicators." [DOF 1]

Generally, respondents suggested that local factors are also influencing an authority's scores, and the AC should consider these factors in their assessment indicators and the auditors should be made aware of.

6.3.3 Consultations

The AC issues consultation papers when they look towards changing indicator and assessment rules. Therefore, statements with regard to consultations were generated. Table 90 and Table 91 report frequency and mean analysis for those statements.

Table 90: Consultations

Statements	Frequency (%)			
	Agree	Neither Agree nor disagree	Disagree	No view
The Audit Commission consulted local authorities in an appropriate way before the indicators and assessment rules were determined	70.0	5.0	25.0	
The consultation opportunity is worthwhile	60.0	15.0	25.0	

Notes: N=20
Source: Interview Data, 2008

Table 90 reports that a majority agree to both statements. A director responded:

"They did consult, the consultation methodology was sound but it was worthless. You could look out the original consultation and the eventual output from it. They were similar, very few changes were made. They removed one category but added questions from that category in another category which made us gain nothing." [DOF 8]

Generally the respondents agreed with the process of consultation, but doubted the value of being consulted or responding to the consultation. Some viewed the consultation as not worthwhile as they would rather focus on meeting the indicators for assessment. However, some respondents (majority of those who marked agree) suggest that it is more worthwhile responding to the consultation for Comprehensive Area Assessment (CAA) because they felt their views were listened to more, compared to consultation for the CPA regime. Thus, this indicates that the consultation was not as the directors expected with CPA. They also agree that if, local authorities join up and submit their views together, it is more likely that the views are entertained. A director said:

"I marked agree because of our input on fees where we lobbied hard and made a U-turn on our fees... I think if you get enough people to respond on the consultation, you actually can turn their view where they actually don't have their set view. If they have set their view, I don't think any amount of lobbying will actually address the issue they want to go for". [DOF 11]

Another director supported the notion:

> "The consultation responses very much depend on how hard-hitting the new proposals are. If the new criteria were critical, it would invite immense responses and thus the Commission would have to consider." [DOF 5]

Table 91: Mean Analysis – Consultations

Statements	Min-Max	Mean	Standard Deviation
The Audit Commission consulted local authorities in an appropriate way before the indicators and assessment rules were determined	2-5	3.50	0.95
The consultation opportunity is worthwhile	2-5	3.40	0.94

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

Mean analysis for both statements, reported in Table 91 also indicates that responses inclined towards agreeing, with means of 3.50 and 3.40.

6.3.4 Appeal

The AC allows local authorities to appeal after they have published the final results of assessment. Analysis of published documents shows that very few local authorities throughout England appeal. Views from the directors were sought to understand the situation. Not many local authorities in Yorkshire and The Humber appealed against their scores. Responses to statements related to appeal were analysed and reported in Table 92 and Table 93 that follows.

Table 92: Appeal

	Frequency (%)			
Statements	Agree	Neither Agree nor disagree	Disagree	No view
Making use of the appeal process				
i. would increase the chances of obtaining improved scores	10.0	40.0	50.0	
ii. would damage our relationship with auditors	35.0	20.0	45.0	
iii. would invite more news coverage	35.0	30.0	35.0	
iv. would increase costs	60.0	5.0	35.0	

Notes: N=20
Source: Interview Data, 2008

Half of the respondents disagree that appeal would stand better chance for improved scores.

However, many have responded:

> "Never had to use it, never had a problem" [DOF 7]
> "Never appeal" [DOF 1]
> "I have not, but I have known some others that have" [DOF 2]

According to the respondents, they never appeal because they do not believe that the chances of successful appeal are high:

"I don't believe in it, except that it will give you extra work. I would rather work for the next assessment. " [DOF 16]

The response is supported by another director who said:

"We looked at appealing last year when we got a 2 again when we believe we should be a 3, but we stepped back. We didn't think it would be successful." [DOF 5]

Mean analysis in Table 93 also reveals a mean of 2.60, indicating disagreement. A director explained:

"If you are an authority that you think you have been genuinely underscored, fine. But my view is that if we were to have one, it would damage our relationship with the auditor, attract news coverage and incur costs." [DOF 7]

As for damaging relationship with their auditors, many respondents marked disagree (45%). A mean of 2.85 indicating inclination towards mixed views. A director said:

"I believe the auditors are professional, and that is a chance given to you." [DOF 12]

However, many agreed that they should consult their auditor before they were scored, for example:

"If you have got a constructive, on-going dialogue with your auditor, it will be very obvious what score will be given to you. So you should do something about it, or through the dialogue process you convince the auditor what they didn't get right." [DOF 17]

It appeared that that consultation and active dialogue with the auditors could help to clarify the local authority's position with the auditor and avoid being scored unreasonably. This supported the respondents' disagreement to the chances from the appeal process and the low number of local authorities that attempted to appeal.

Table 93: Mean Analysis – Appeal

Statements	Min-Max	Means	Standard Deviation
Making use of the appeal process			
i. would increase the chances of obtaining improved scores	1-5	2.60	0.88
ii. would damage our relationship with auditors	1-4	2.85	0.99
iii. would invite more news coverage	1-4	2.90	1.02
iv. would increase costs	1-4	3.20	1.06

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

As reported in Table 93, respondents view that an attempt to appeal would increase cost and do not stand much chance of obtaining improved scores.

6.3.5 Resources

Dealing with the assessment requires resources to provide reports, so respondents were asked about whether availability of resources influenced local authorities' scores. Table 94 reports the frequency analysis for responses on this statement.

Table 94: Resources

	Frequency (%)			
Statements	Agree	Neither Agree nor disagree	Disagree	No view
Local authorities with more resources are likely to achieve better scores	65.0	15.0	20.0	

Notes: N=20
Source: Interview Data, 2008

A majority (65%) agreed that having extra resources would help especially in terms of staff to provide enough documentation and evidence for their auditors. A director said:

> "Yes, undoubtedly; it is not an absolute correlation, but if you got more resources, if I had 16 accountants, I would really struggle with it. If I got 30, I would have done not too bad, if I had 47, I would score a 6, because you have time to do stuff" [DOF 7]

Auditors normally seek evidence through documentation, thus having a function that works without documentation will not be counted in the assessment, causing local authorities to be scored down. In contrast, local authorities having full documentation for a function may be marked up by their auditors, according to the following director:

> "If I have someone to dedicate to UoR, I can guarantee better scores. It depends on how you put the stories to them. The auditors do not find the stories; they depend on us, local authorities, to tell them the stories." [DOF 5]

Consequently, local authorities may instead concentrate on having the documentation ready. Another director who does not share the majority view said:

> "For me it comes down to leadership, political and officer. You could give me all the resources I need. It doesn't make our job easy if we are not focused on outcome and discipline and I have seen that too many times." [DOF 2]

The importance of having good leadership and qualified staff were shared by all respondents. Many directors mentioned about their efforts to attract staff involvement, participation, and making them feel valued and promoted their staff when necessary to avoid job frustration. These are necessary because staff morale dropped when their local authority was unable to get better scores and were scrutinised by the external auditors. Respondents also agreed that having the assessment also contributes to motivation for their staff because they felt their efforts valued, especially when they obtained good scores.

The AC's manager interviewed prior to this fieldwork emphasised that the UoR assessment will not advantage the highly resourced local authorities. Thus, it is not surprising to see that some small local authorities with minimum staff could get good scores and some larger local

authorities with larger directorates unable to obtain good scores. One of the director responded:

> "Our neighbouring authority gets far more resources, they are the highest spending authority, but they have not found it as easy as us to achieve good UoR." [DOF 6]

However, in view of the necessary documentation required for the assessment, a reasonable number of staff is necessary. Majority of the respondents agree that resources alone would not help to score better, but they recognized the needs for staffing to deal with the assessment is necessary because it does increase their workload. A director suggested that, they could do much better if they could afford to have an officer dedicated to the assessment. Many small authorities with one or two accounting staff are struggling with the assessment and get really frustrated. This is expressed by many directors, to quote one:

> "We just don't have enough people to work on it. We are struggling with our annual accounts and difficulty in getting permanent, qualified staff." [DOF 13]

And to strengthen the argument, another director said:

> "I knew a district council which has 1.5 accountants. That is it. They may have accounting issues, it is not difficult but it is impossible for them." [DOF 7]

Some respondents from the district councils admit that have very limited accounting staff to support their finance function, causing them difficulties when dealing with the assessments. This is related to another issue related to the district councils, discussed in Section 6.3.6 which revealed views that resources are the main factor causing the district councils to score lower than the single tier and county councils. Respondents from other than the district councils have also suggested similar concern, for example:

> "I sympathise with the district councils, they just don't have a resource base, and they don't have enough people. We just don't have enough people to work on it. We are struggling with our annual accounts and difficulty in getting permanent, qualified staff." [DOF 13]

Table 95: Mean Analysis – Resources

Statements	Min-Max	Means	Standard Deviation
Local authorities with more resources are likely to achieve better scores	2-5	3.75	1.12

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

A mean of 3.75 is reported in Table 93 indicating agreement that optimum resources in terms of staffing are important to accomplish the requirements in the assessments, but having more staff does not guarantee a better achievement without good leadership, commitment and motivation. Therefore organisational human resources development strategies at authority wide level designed to identify and address development needs is necessary (Harris, 2003).

6.3.6 Effort and Focus

Statements in this section were generated to encourage discussion about attempts by local authorities in dealing with the assessment activities. The objective is to seek their views on the effort and focus they consign. Hence, issues about target, emphasis, focus, easier-harder indicators and learning will be covered. Table 96 and Table 97 report the frequency and mean analysis for the statements asked.

Table 96: Effort and Focus

Statements	Frequency (%)			
	Agree	Neither Agree nor disagree	Disagree	No view
The scores allocated for each assessment have helped my local authority target areas for improvement	90.0	10.0	0.0	
My local authority puts more effort and focuses on the areas where performance is worse	80.0	20.0	0.0	
Focusing on easier indicators will improve scores more than focusing on the worst performance areas	40.0	20.0	40.0	
The UoR scores were declined for 2005 when 'the harder test' was first introduced because local authorities were not familiar with the new system	40.0	20.0	30.0	10.0
District Councils are scoring lower than the Single Tier and County Councils because of the novelty to them of the assessment system	10.0	20.0	55.0	15.0

Notes: N=20
Source: Interview Data, 2008

A strong majority is reported in Table 96 for *'the scores allocated for each assessment have helped my local authority target areas for improvement'* (90%) and *'my local authority puts more effort and focuses on the areas where performance is worse'* (80%). It is interesting to note that none of the directors disagree with the two statements and only a small percentage (10%; 20%) marked neither agree nor disagree. The two statements are related to each other, thus the patterns of response appear similar. Both statements also generated high means: 3.95, shown in Table 97, indicating strong agreement and low standard deviations (0.39; 0.60), indicating similar views. A director responded:

> "In some of the areas we would say, 'sorry we don't agree with the Commission'. In most areas we sort of agree with their assessment that we need to improve ... It certainly helps our finance function because the UoR score is critical for a local authority's reputation. I think it helps us as a finance function to convince our corporate management team that these areas need urgent attention." [DOF 6]

Respondents agree that the scores helped them to identify areas they need to improve and concentrate more on enhancing the functions to ensure better scores in the next assessment. The directors also expressed views that the scores have helped them to convince senior management that they need to focus on certain functions. Moreover, some directors use the scores as motivation for their staff that 'our jobs are vital to the organisation'. As a director mentioned:

> "I work hard to attain motivation of my staff, where they were very frustrated with the complaints they had after being scored low. I have to tell them our job is important for the organisation. It is evidenced by having the indicators which pointed directly towards our

function. That helps and I found that my staff are now getting the confidence and strive for improvement." [DOF 8]

Many respondents also supported the importance of emphasising on areas that they are not performing well so that they could avoid poor scores in the future, as their reputation depends on performance:

"We work as hard as we could to improve and maintain good scores, because local authority and CEO reputation depends on good score" [DOF 16]

Table 97: Mean Analysis – Effort and Focus

Statements	Min-Max	Means	Standard Deviation
The scores allocated for each assessment have helped my local authority target areas for improvement	3-5	3.95	0.39
My local authority puts more effort and focuses on the areas where performance is worse	3-5	3.95	0.60
Focusing on easier indicators will improve scores more than focusing on the worst performance areas	2-5	3.05	1.00
The UoR scores were declined for 2005 when 'the harder test' was first introduced because local authorities were not familiar with the new system	1-4	3.06	1.00
District Councils are scoring lower than the Single Tier and County Councils because of the novelty to them of the assessment system	1-4	2.24	0.97

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

Consequently, the directors were asked if 'focusing on easier indicators will improve scores more than focusing on the worst performance areas'. This statement resulted in mixed responses; 40 percent agree and the same percentage disagrees. The mean reported in Table 97 is 3.05 confirms the mixed views. A director responded:

"They aren't any really easier indicators...especially when you reached higher levels on the scale." [DOF 6]

The view is supported by many; they agree that they could focus less on some indicators and emphasis more on others, as a director said:

"Probably the one we could put in less effort is financial standing; that is because our finances are generally sound. Some local authorities get to a bad position, taking several years for them to repair that damage and build up financial standing." [DOF 12]

Some directors appear to use the options positively, especially when reaching higher levels on the scale:

"Yes, I am not talking about areas that are particularly failing. When you get to the point where you are scoring 3s and you want to get to 4s then that is what you do. That is part of the game playing in this that you will look for areas where you can say that actually we can raise our score by doing this and this is easy. So there is a tendency to do that." [DOF 1]

Therefore, although there are no easy indicators, some could be easier than others on which they can work with their available resources, so it could push their scores further up the scale. However, they agree that worst performance areas also need attention, especially if at the lower level of the scale it would cause them dropping their score and damaging their

reputation. At times, the score they attain is lower only because of a lack of documentation, and it may not be too difficult for them to repair this before the next assessment.

A statement was asked on 'the UoR scores were declined for 2005 when 'the harder test' was first introduced because local authorities were not familiar with the new system'. This statement was generated because the published scores show a systematic decline following the new assessment regime and then a steady increase the following year with that regime. The responses as shown in Table 96 evidenced 40 percent agreement, with a mean of 3.06 reported in Table 97 confirming the inclination towards agreement. From the interviews, many respondents seemed not to realize that their performance is being lowered down by the new regime. This is because the new CPA-the harder test started in 2005 have restarted the UoR scores at a lower level, for all local authorities throughout England. Therefore, the effect does not influence their reputation. A director responded by saying:

> "We didn't notice that. Some local authorities were slower than others to get to grip with what was required."[DOF 6]

And another director explained the insignificance of that decline to them:

> "The things are just watered down. We will see that again in 2009, because the government cannot afford to have a number of councils ranked as excellent or 4 stars or whatever. What tends to happen with the auditors is they make the test too hard and people can't meet the higher standards and then someone says: 'O dear, we have got problem here' and things are just watered down to make sure people actually hit the right target." [DOF 11]

The last statement asked in this category is whether the directors think that 'the district councils are scoring lower than the single tier and county councils because of the novelty to them of the assessment system'. This statement was created because the published scores show that district councils generally scored lower than the single tier and county councils. This statement shows a response of 55 percent disagreeing as reported in Table 96. A low mean reported in Table 97 for this statement, 2.24, verified the disagreement. Respondents suggested that being new to the assessment was not the reason but the main issue is the lack of resources to enable them to respond to the requirements, for example:

> "It is about resources." [DOF 1]

Another director supported this view:

> "They don't have enough resources and staff to commit with the assessment regime. I think to expect the District Councils to have the same standards of universal governance that a large authority has got is unrealistic. It is like a local chemist compared against Boots, it is not a fair comparison. I think they are in difficulties." [DOF 7]

Many directors share the views above and suggested that the indicators should have a better recognition of the position the district councils are in and the local factors of some councils should be incorporated in the assessment so it would best reflect their position and situation (Kelly, 2003). The issue with district councils is in alignment with the findings from previous section on resources which concluded that having reasonable resources to commit with the assessment regime is important to achieving good scores.

6.4 How do the auditees view the external audit process and performance assessment?
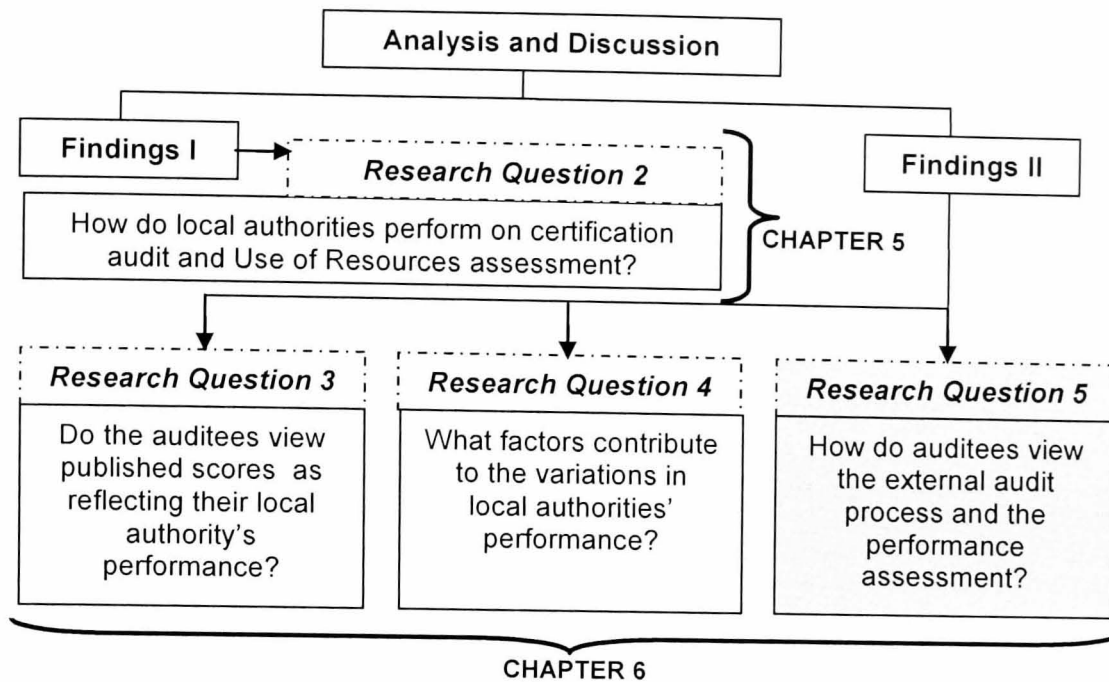
The last research question to achieve the main aim of this study is 'how do the auditees view the external audit process and performance assessment'. This section discusses statements and responses which are directly related to the auditees' views on the process and assessments. Their views were sought on the chances to improve on the indicators' scales (6.4.1), the risk of decline on the indicators' scales (6.4.2), the order of difficulty for the UoR themes (6.4.3), their views on the central government and the AC (6.4.4), their views on the auditors (6.4.5), and finally their views on how the CPA should be changed (6.4.6). Discussion of views on the central government and the AC is combined but views on the auditors is separated under its own section because auditors deal directly with local authorities' assessment and exercise judgement, hence more issues arise regarding them.

6.4.1 Chances to Improve on the Indicators' Scale

The directors were asked to rank the chances to improve on the UoR scales from '1' which is the lowest to '4', the highest. Their responses, in Table 98 show a clear pattern.

Table 98: Improvement on the Scale Used for the UoR Themes' Performance Indicators

Please rank the following improvements in UoR themes' score in order of difficulty (1 being easiest, 3 hardest):	Frequency (%)			
	Easiest	Between	Hardest	No view
i. From '1' to '2'	80.0	5.0	10.0	5.0
ii. From '2' to '3'	5.0	90.0	0.0	5.0
iii. From '3' to '4'	10.0	0.0	85.0	5.0

Notes: N=20
Source: Interview Data, 2008

From the table, 80 percent marked to improve from a '1' to '2' on the UoR scale as being the easiest and 90 percent marked to improve from a '3' to '4' as being the hardest. A director responded:

> "It is a massive leap from '3' to '4', it is all about innovation, basically just best-practice. From a '3' which is good to being totally innovative, being inevitably best-practice is quite a big leap" [DOF 11]

Very few suggested that to improve from a '1' to '2' was hard because it is the foundation that should be in place and having that done, improvement at a later stage is believed to be easier. This view however is not shared by many.

Another director noted:

> "It is not impossible to achieve level '4' if we increase resources... To be innovative is about doing things differently. To do so, I need to have more people who can sit back and think of doing things more differently and then implement whatever they have decided. I have got teams that are just working flat out, doing the accounts and then preparing budgets. They haven't really got time for that reflection and haven't got time to implement any ideas they have." [DOF 11]

This response related to having enough resources and ability to reflect on their work. Many directors commented that they have minimum response time to meet the assessment requirement, and need more to reflect and be innovative. The issues were discussed in detail in Section 6.3.5.

Table 99: Mean Analysis and Rank Order – Improvement on the Scale Used for the UoR Themes' Performance Indicators

Rank	Improvement in UoR themes in order of difficulty; (1=easiest, 3=hardest)	Min-Max	Mean	Coefficient of Variation
1	From '1' to '2'	1-3	1.26	0.52
2	From '2' to '3'	1-2	1.95	0.12
3	From '3' to '4'	1-3	2.79	0.23

Notes: N=20
The mean is average on a scale of 1(='Easiest') to 3(='Hardest')
Lower means indicate ease of improvement on the scale of '1' to '4' used for the assessment indicators
Source: Interview Data, 2008

Table 99 shows the rank-order generated from mean analysis evidenced a clear order of easiest to hardest. These would suggest that the indicators that the AC set for every level of KLoEs reflected its necessary position, indicators to score a '2' is the easiest and the indicators to score a '4' is the hardest. None of the directors commented on the indicators set at any level being inappropriate. They however said that the changing of indicators (indicators from level '4' this year becoming a level '3' in the following year) were too fast to assist learning and improvement. They have to chase for new indicators every year and at times are unable to reflect on the previous year's achievement. Harris (2003) suggest that using an external set of measurements based on past performance indicators to define future agenda is not likely to encourage proactive approach or innovation. The author further argues that measurement based on a set of identified 'best practice' standards drawn from a

range of similar organisations in the same sector does not encourage a flexible developmental approach and can be a constraint to more innovative thinking about what constitutes good practice relevant to the organisational context. The author suggests that a more balanced approach is required which uses wider external bench-marking and internal evaluation and promotes strategic HRM based on best fit with the specific organisational and environmental context. Using past performance as indicators would encourage, especially in less proactive authorities, a tendency to 'play the game' by adhering strictly to what is measurable (Harris, 2003, p.15)

6.4.2 Risk of Declines on the Indicators' Scale

Table 100: Risk of Declines on the Scale of UoR Themes' Score

Please rank the following declines in UoR themes' score in order of risk of occurrence (1 being low risk and 3 high risk):	Frequency (%)			
	Low Risk	Between	High Risk	No view
i. From '4' to '3'	15.0	15.0	65.0	5.0
ii. From '3' to '2'	0.0	75.0	20.0	5.0
iii. From '2' to '1'	80.0	5.0	10.0	5.0

Notes: N=20
Source: Interview Data, 2008

Some local authorities experienced declines in UoR scores. Consequently, the directors were asked to rank the risk of decline on the UoR themes' scores, and the frequencies are reported in Table 100 above. As perceived from the rules, a majority (80%) suggested that to drop from level '2' to a '1' is low risk; from a '3' to a '2' in between (75%); and to decline from '4' to '3' has the highest risk (65%).

Table 101: Mean Analysis and Rank Order – Risk of Declines on the Scale of UoR Themes' Score

Rank	Declines in UoR themes' score in order of risk of occurrence; (1 being low risk and 3 high risk)	Min-Max	Mean	Coefficient of Variation
1	From '2' to '1'	1-3	1.26	0.52
2	From '3' to '2'	2-3	2.21	0.19
3	From '4' to '3'	1-3	2.53	0.31

Notes: N=20
The mean is average on a scale of 1(='Low risk') to 3(='High risk')
Lower means indicate ease of improvement on the scale of '1' to '4' used for the assessment indicators
Source: Interview Data, 2008

A rank-order of risk is generated to confirm the results above, reported in Table 101. The coefficients of variation are relatively higher than when the directors were asked to rank for improvement on the scales. Although not shared by the majority, some directors who marked a decline from '2' to '1' as the highest risk explained that there was a risk of not having the basic requirements (which the AC normally sets the basic requirements at level '2') in place properly for the assessment compared to the indicators at higher levels. The directors also

explained that they thought of having marked down from '2' to a '1' would certainly tarnish their reputation, for example:

> "It is easy to drop from '4' to '3' because of its constant innovation. In terms of reputation, dropping from '2' to '1' is a nightmare scenario' [DOF 1]

A majority of directors also expressed their worry should they drop from a '2' to '1' because that is the most basic level an authority should have. They considered that after many years of assessment, their local authority should not be in that level; they should have learned and made improvements. Hence they said the highest risk to their reputation is to drop scores at the lowest level.

6.4.3 Order of Difficulty for UoR Themes

Many commentators argue that measuring the value for money (VFM) theme is not easy because of its subjectivity (Buttery et. al, 1993; McSweeney, 1988). As VFM is included among other themes, respondents were asked to rank the UoR themes to check their views on which is perceived to be most difficult, easiest and in between. Table 102 and Table 103 report the findings on frequency and mean analysis.

Table 102: Ranking of UoR Themes in Order of Difficulty Meeting KLoE's Requirement

Order of difficulty meeting KLoEs' requirement (1 being easiest , 5 hardest)	Frequency (%)					
	Easiest	Easy	Between	Hard	Hardest	No view
i Financial Reporting	**35.0**	25.0	10.0	10.0	15.0	5.0
ii Financial Management	20.0	**30.0**	15.0	25.0	5.0	5.0
iii Internal Control	0.0	25.0	**40.0**	25.0	5.0	5.0
iv Financial Standing	**40.0**	15.0	15.0	15.0	10.0	5.0
v Value for Money	0.0	0.0	15.0	20.0	**60.0**	5.0

Notes: N=20
Source: Interview Data, 2008

The bold percentages in Table 102 are the highest frequency for each UoR themes. It is interesting to note that 60 percent marked the 'Value for Money' theme as the hardest to meet its KLoEs, while 35 percent marked the 'Financial Reporting' theme as easiest and 40 percent viewed 'Financial Standing' as being the easiest. As for the 'Internal Control' theme, 40 percent marked this theme at between easy and hard. An analysis of means is generated to create rank order for the five UoR themes.

Table 103: Mean Analysis and Rank Order – Ranking of UoR Themes in Order of Difficulty Meeting KLoEs' Requirement

Rank	Order of difficulty meeting KLoEs' requirement (1 being easiest , 5 hardest)	Min-Max	Mean	Coefficient of Variation
1	Financial Reporting	1-5	2.42	0.62
2	Financial Standing	1-5	2.37	0.48
3	Financial Management	1-5	2.63	0.28
4	Internal Control	2-5	3.11	0.62
5	Value for Money	3-5	4.47	0.17

Notes: N=20
The mean is average on a scale of 1(='Easiest') to 5(='Hardest')
Lower means indicate ease of meeting the KLoEs requirement to achieve better scores on the same scale of '1' to '4' used for the assessment indicators
Source: Interview Data, 2008

An order of easiest-hardest themes based on the respondents' perception indicates that the 'Financial Reporting' theme is perceived to be the easiest and 'Value for Money' is the hardest. A relatively low coefficient of variation for 'Value for Money' evidenced unanimity for the theme being hardest, and the 'Min-Max' column shows that none marked the theme as being easier or easiest. A director responded:

> "The most difficult one is 'Value for Money', because it is all about interpretation, it is not clear. The other themes are clear for you to do this and that and achieved a '3'. That is not with 'Value for Money', it is subjective. When I say interpretation, I mean, we will introduce things we think in terms of 'Value for Money' are extremely good and the way we measure it is extremely good, but the auditors don't necessarily have the same view" [DOF 9]

The views reflect the difficulty and subjectivity of the 'Value for Money' theme which makes it the hardest theme to meet its' KLoEs. There appears to be some differences of interpretation between local authorities and auditors which will be discussed further in Section 6.4.5.

6.4.4 Audit Commission and Central Government

The AC liaises with local authorities on behalf of the central government in terms of auditing work. Checking auditees' perception on these two institutions was thought to be useful. Table 104 shows the frequency of responses for statements and Table 105 reports means analysis and standard deviations.

Table 104: Issues related to the Audit Commission and Central Government

Statements	Frequency (%)			
	Agree	Neither Agree nor disagree	Disagree	No view
Sufficient policy support has been available from central government	15.0	35.0	40.0	10.0
Sufficient technical support has been available from the Audit Commission	40.0	30.0	25.0	5.0
Having the Audit Commission as performance reviewer has reduced intervention from central government	35.0	25.0	40.0	
The Audit Commission fairly allocates auditors to audit local authorities	65.0	25.0	0.0	10.0

Notes: N=20
Source: Interview Data, 2008

As revealed in Table 104, only 15 percent agree that *central government provided sufficient policy support* for the Use of Resources assessment. Majority of respondents either disagree (40%) or neither agree nor disagree (35%). A director commented:

> "central government is not directly involved in the UoR assessment ... some of the Commission's key lines of enquiries indirectly reflects some of the central government policies but it really is the Commission's view of best practice and the central government is not involved" [DOF 6]

The response quoted above reflects a view that local authorities do not expect guidance from the central government and they perceived the KLoEs as coming from the AC's point of view about what best practices should be. Respondents either disagree or were neutral on the statement because they consider that central government could have provided clearer objectives for the assessment and how it contributes towards improvement in services to the public. Even one director who agreed to the statement said:

> "There is guidance, rules in terms of how they are going to score you, down to the detail level about each aspect of it.[30] It gives you a tick list of what to do. But there is no definition of why they are doing it." [DOF 5]

The response signals that local authorities do not understand why they are doing all the reports and they view it as a tick-box exercise. Thus, they may not value the effort of driving improvement. Another director said:

> "The drafts of policy and direction we get from central government pull us in various directions... they have different guidelines for UoR, they issue new one for other inspectorates, but it hasn't been necessarily a coherent voice. The Commission has done a good job in terms of pulling the guidelines together as their own but from the central government we have quite a lot of mixed messages specifically around what VFM is and what it means." [DOF 2]

This response indicates the lack of clear guidance from central government. Another director said:

> "Not really, just get on with it. What kind of policy support can they give you? No need for such guidance, you just read the words." [DOF 7]

And

> "I am not quite sure whether there has been or not, there has been some, but it has not been fantastic as far as I am concerned but it wouldn't be fair to say there's been none. There has been some, but I wouldn't get excited about it as far as I am saying." [DOF 1]

Besides agreeing that there is no clear guidance from the central government, respondents suggest that they do not expect anything from the central government and assume the Commission is responsible for the whole assessment.

Mean analysis reported in Table 105 below shows the range of responses (Min-Max column) reached '5' which is strongly agree on the statement. Some respondents explained that they prefer the central government to remain with the way they do now, not to interfere much in the assessment to avoid multiple directions. They prefer having the AC as the only institution driving the assessment.

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[30] This is provided by the Commission

Table 105: Mean Analysis – Issues related to the Audit Commission and Central Government

Statements	Min-Max	Mean	Standard Deviation
Sufficient policy support has been available from central government	1-5	2.72	0.96
Sufficient technical support has been available from the Audit Commission	2-4	3.16	0.83
Having the Audit Commission as performance reviewer has reduced intervention from central government	1-4	2.90	0.97
The Audit Commission fairly allocates auditors to audit local authorities	3-5	3.78	0.55

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

The second statement asked is whether they received *sufficient technical support from the Commission* to deal with the assessment. Mean analysis in Table 105 shows a higher mean for this statement (3.16) compared to the first statement (2.72) on central government; signify more respondents agree that the AC provided them with sufficient technical guidance. Table 104 on frequency also shows many (40 percent) agrees with sufficient technical support received from the AC, compared to the statement on policy support from the central government which shows many (40 percent) disagrees. The extent of agreement however did not reach '5=strongly agree' for the statement on technical support received from the AC. A director said:

> "No, that has been really poor. In terms of UoR, when you read things, they are open to interpretation." [DOF 11]

Although most guidance was distributed by the AC, split responses were evident for various reasons. Respondents explained that the guidance they received was sometimes too late to be useful in the assessment; the best practices provided on the AC website were outdated and not suitable for the assessment. Respondents suggest the AC should take a firmer view and provide clearer guidance for them. A director said:

> "The only way you can resolve the subjectivity is through discussion with your auditor as they are the one giving judgement, you need to be able to say to the auditors, 'What is your interpretation of this? This is ours, what is yours, because ours doesn't count, it is yours that matters'." [DOF 1]

Another director responded:

> "When the systems changed, the key lines of enquiries changed and we are in subjectivity again. When we asked our auditor, they responded that they are not ready to answer that yet, and they will be ready before they do the audit. Well, that is not good for us; we need to understand that now, because we might be preparing for the wrong thing." [DOF 10]

The ambiguity in the KLoEs may create disputes between local authorities and their auditors. They also explained that they sometimes asked their auditors about what they would look for to score for certain indicators, but the auditors would not want to explain how they interpret the indicators. The auditors normally would ask local authorities to use their own

interpretation of the indicators to prepare documentations and the auditors will comment on it after they have done the assessment. One director noted:

> "The Commission will sit on the fence ... they will never come down with something that will fetch future digression. I think sometimes I would like them to just take a little bit of a step-off the fence and give us clearer view, which will help us in learning to improve." [DOF 2]

Another director supported the notion of using the assessment as learning tools said:

> "The Commission and the auditors don't always give us a great learning tool in terms of sharing knowledge although they do produce good papers, case studies, and have got better over the years" [DOF 12]

The AC supports learning through case studies shared on their website, but many directors complained that the 'best practices' were out-dated, which was best with old indicators and no longer appropriate to the newer indicators. They also suggested that the AC might share more examples of 'best practice' which they believe must be available from its data-banks.

The third statement asked was whether *having the Audit Commission as performance reviewer has reduced intervention from central government.* Views were split with 35 percent agreement and 40 percent disagreeing. The directors responded that there are still many other inspectorates seeking various reports from local authorities, and the AC is one of the central government agents. They view the AC as doing the job the central government asked them to do but that does not limit central government intervention at all.

The last statement was whether the *AC fairly allocates auditors to audit local authorities.* The frequency revealed in Table 104 shows a majority, 65 percent agree and none of the directors disagreed. A small percentage (25%) adopts the middle view. The auditors were rotated after a few years servicing one local authority. A director said:

> "I think they do it reasonably well, it is difficult to argue. We were with the Commission's auditor and recently moved to the ... (private auditor) for this year. They have been here for a couple of months" [DOF 1]

Some directors made it clear that the process of allocation was difficult to determine:

> "I have no idea; the process is a complete mystery to me. We received a letter saying we have a rotation policy, your new auditor is ... " [DOF 7]

And:

> "I don't really know how they have done that. I know every 5 years they will re-assess and move the team around and they will re-apply who we actually get as our auditor. I don't know what process they actually do. I get a letter from the Commission head office saying that we are currently reviewing who your auditors are and we will be in touch when we appoint the new one. That is about the size, length and detail I get in terms of who the auditors are, the next letter there is 'we have appointed ... (audit company) as your auditors'. In terms of whether they fairly allocate or not, I don't know." [DOF 5]

Mean analysis shown in Table 105 for this statement also reveals a very high mean, 3.78, indicating agreement to the statement, is supported by a relatively low standard deviation, 0.55 showing unanimity of views. The AC noted their statutory duty of consulting local

government prior to the allocation of auditors in their explanation of what they do. However, none of the respondents recognised the process and responded that they received a letter about their auditor will be changed for rotation and then shortly after they will receive details of the new auditor.

6.4.5 Auditors

This section is thought necessary because the auditor is the individual dealing directly with a local authority and so that respondents are able to share their experiences. Some local authorities were audited by the District Auditor which is the AC staff and some were audited by a Private Auditor. Some local authorities have experienced both the District and Private Auditor. A 'No view' option is provided for respondents who had never experienced different auditors.

6.4.5.1   Private Auditor versus District Auditor

As local authorities may be audited by an auditor from the private sector or the AC staff, respondents were asked if the private auditors differ from the District Auditors (the AC staff) in certain aspects. Table 106 reveals the frequency of responses.

Table 106: Private versus District Auditors

| Statements | Frequency (%) | | | |
	Agree	Neither Agree nor disagree	Disagree	No view
In general, if a local authority is assigned to be audited by private auditors instead of the District Auditor:				
i. communication with the Audit Commission will be lessened	35.0	25.0	30.0	10.0
ii. assessment activities will **not** differ	35.0	40.0	15.0	10.0
iii. judgement and scoring will **not** differ	20.0	40.0	35.0	5.0

Notes: N=20
Source: Interview Data, 2008

Split views were received in terms of *communication* with the AC: those agreeing with the statement explained that they communicate more with the audit team assigned to them and not directly with the AC. If they were assigned a private auditor instead of the District Auditor that could mean they communicate less with the AC. Those disagreeing suggest that they were receiving instructions from the AC, thus they still communicate with the AC especially when they need to inquire on certain issues. Those adopting a middle view or no view generally have never experience both type of auditors. Mean analysis for this statement reported in Table 107 confirms the mixed views.

Table 107: Mean Analysis – Private versus District Auditors

Statements	Min-Max	Mean	Standard Deviation
In general, if a local authority is assigned to be audited by private auditors instead of the District Auditor			
i. communication with the Audit Commission will be lessened	1-5	3.00	1.14
ii. assessment activities will **not** differ	1-5	3.22	0.94
iii. judgement and scoring will **not** differ	1-4	2.74	0.93

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

In terms of *assessment activities*, the views were mixed between agree (35%) and neither agrees nor disagree (40%) with very few disagreeing (15%). Respondents suggested that they realised the different between the District Auditor and the private auditor, although both auditors follow the same guidelines. However, they have no valid evidence to support the difference. This is also reflected in the means reported in Table 107, which is slightly higher than average, 3.22, indicating inclination towards agreement that the assessment activities will not differ. Some respondents said that the District Auditor tended to adopt more detailed procedures than the private auditor. They perceived that the District Auditor's field team has more skills and experience than the private auditor's team, while the audit managers for both teams are viewed as expert. A director said:

> "Private auditors do things faster. They are chasing money and time. I don't think they are more efficient compared to the Commission's auditor, the issue is that they don't have public sector experience; they may have at senior manager level. The troops on the ground that come in and do the checking generally have come from private sector background and they try to transfer their private sector knowledge into the public sector. We had to tell them what various returns were when we send it to audit." [DOF 5]

A few respondents commented that some auditors are very new and not familiar with local government's activities; their assessment work requires more assistance from the local authority's staff and therefore their ability to arrive at a reasonable conclusion is doubted. A few suggested that the private auditors are better at understanding the requirements for the UoR indicators, for example:

> "They (the private auditor) will look for the evidence; they can understand UoR a lot more than they do with the public sector accounts terminology." [DOF 10]

A few respondents share the response above, explaining that they believe that the assessment activities would not differ as the auditors follow a specified set of guidelines in collecting evidence, but the skills and experience of audit teams vary and sometimes generate difficulties for the auditees' organisation in providing evidence and explanation to auditors. Another director mentioned:

> "I think the criteria they are assessing against are identical. My experience in terms of AAA as a private auditor is that staff on the ground were less knowledgeable on the local authorities so they needed more explaining to them, but the audit manager/partners who are involved at senior level were very able. So there were two different emphases but at the end of the day, they were assessing against the same criteria." [DOF 6]

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Nevertheless a majority of respondents agree that the District Auditor's team have more experience and knowledge of the local government environment compared to private auditor.

When it comes to *judgement and scoring* which is reported in the last row of Table 106, the mixed were maintained with 40 percent neither agree nor disagree, 35 percent disagreeing and only 20 percent agreeing to the statement that judgement and scoring will not differ between the two types of auditors. The views differ from the responses for assessment activities, where the mixed views were inclined towards agreement. A director said:

> "I disagree. The private sector auditors tend to be slightly generous than the Commission's. I don't know why that is, it is my experience and that might not be shared by other colleagues. That is true on a whole range of issues relating on the accounts and other things and it may well be that the private sector people have seen much bigger problems elsewhere in the general market than they do here, so they are a little bit more relaxed about it." [DOF 1]

Some respondents appeared to have experienced harsher scoring from the District Auditor compared to the private auditors. The mean analysis for this statement, reported in Table 107, indicates disagreement to the statement. This confirms to Davies et al (2001) argument that inconsistencies exists between different inspectorates in which the authors raise questions about what inspectors see as their role and whether the view is commonly shared amongst them.

6.4.5.2   Other Issues Related to Auditors

Respondents were also asked about a few other issues related to the auditors. Table 108 and Table 109 report the results on analysis of their marked responses to the structured statements on the issues.

Table 108: Other Issues Related to the Auditor

Statements	Frequency (%)			
	Agree	Neither Agree nor disagree	Disagree	No view
Satisfying the auditor is more important than satisfying local citizens	25.0	15.0	60.0	
The auditor's interpretation of the UoR assessment rules is fair	40.0	20.0	40.0	
The auditor spends more time on Use of Resources assessment at the expense of financial audit	20.0	35.0	30.0	15.0

Notes: N=20
Source: Interview Data, 2008

The first statement in this category checked respondents' opinion as to *who is more important to satisfy* between the auditor and the local citizens. As revealed in Table 108, a majority (60%) of respondents disagree that the auditor is more important to satisfy than local citizens:

> "My beliefs tell me not because you should be doing what is right for the citizens, but practically I recognise that one of the measures is the Audit Commission. But I am passionate that what made us around is about public service to residents and customers which should be the focus, what flows from that then are good performance for the Commission to come and confirm. So, you put citizens and customers first which is the better trait. I think if you start with the Commission, then you are going to get it wrong." [DOF 2]

And another director expressed a similar view:

> "Although improving scores are important, but if we satisfy local citizen, in medium or longer term that would be reflected in our score especially with the new CAA." [DOF 6]

The responses show that respondents believed that it is more important to satisfy local citizens because they are the customers of their services. However they recognised the need to satisfy auditors when it comes to scoring for the assessment. Another director said:

> "It depends on the issue. For UoR, I would rather satisfy the auditor than local citizen. When I am discussing set of budget and local tax, I would rather satisfy the local citizen than the auditor." [DOF 5]

Thus in the context of the assessment although they disagree with the statement, they recognized the need to satisfy auditors for better scores. Some other directors agree to the statement, for example:

> "I agree because I don't think the citizens give a monkey about the standards of financial information, therefore it is far more important for me to satisfy the auditor in the context of UoR." [DOF 7]

And:

> "Yes, there is this theory they espouse that actually if you do the things that satisfy local citizens, then you will improve your scores. To a degree that is true and therefore should we should be doing things. But when you read UoR, some of the things are real text-book accounting stuff which people out there don't really care about. So, I would argue that sometimes we are actually doing things just to please the auditors and not the local citizens. In fact, if you give local citizens the UoR judgement, they would suggest stop doing all these and do more street cleaning. That is the context for me." [DOF 1]

Hence, regardless of agreement or disagreement with the statement, the respondents share common views that satisfying the local citizen is important but that satisfying the auditors for better scores may also be prioritized. They explained that, when a requirement in the indicators requires extra resources but bears no benefit to local authority's activity and local electors, they would ignore those even though this might result the auditor marking them down. Table 109 reported a mean of 2.35 for responses to this statement confirm the disagreement.

Table 109: Mean Analysis – Other Issues Related to the Auditor

Statements	Min-Max	Mean	Standard Deviation
Satisfying the auditor is more important that satisfying local citizens	1-4	2.35	1.18
The auditor's interpretation of the UoR assessment rules is fair	1-4	2.95	1.00
The auditor spends more time on Use of Resources assessment at the expense of financial audit	1-4	2.76	0.97

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

The directors were also asked their views on the *auditor's interpretation of the UoR assessment rules*; whether they think this is fair. Some (40%) of the respondents agreed that auditors' interpretation of the UoR assessment rules is fair, but 40 percent also disagreed. However, the mean for this statement as reported in Table 109 is 2.95 indicates inclination towards disagreement. Many of the respondents viewed that there were inconsistencies in auditors' interpretations of the assessment rules and local authorities rarely get an opinion when they sought their auditors' views on certain issues. The auditors could not give firm answers on what a local authority should have in place to obtain a particular score. A few respondents suggested there are inconsistencies because there are local authorities which they perceived to have equivalent processes in place but obtained different scores. A director responded:

> "They don't have their own interpretation because the Commission lay down their rules and the auditors just follow those. When there are discussions about interpretation of key lines of enquiry, I don't feel their interpretation is fair, I think it is rigid, they have a set of rules which they follow." [DOF 1]

However, one of the respondents said:

> "I think they (the auditors) did (interpret fairly the UoR assessment rules). It (their assessment) has helped developed finance function at local authorities." [DOF 5]

And another director responded:

> "We experienced different interpretation with different auditors, but we have no valid evidence (to suggest the variation in auditors' interpretation) and always take that as challenge." [DOF 3]

Although some respondents agree that different auditors would result in different interpretations and hence different scores (discussed in Section 6.3.2), but they avoid using unfairness in auditors' interpretation as an excuse for their performance. From their responses, a few local authorities obtained better scores with the new audit team. While some others get their scores marked down and their councillors urged for going on appeal to the AC.

The last statement relating to auditors was whether the *auditor spends more time on UoR assessment at the expense of financial audit*. Responses were again mixed, but with more disagreement (30%) than agreement (20%). Those disagreeing commented that the auditors

do more work on the UoR assessment but not at the expense of certification audit because (i) they charged more fees for the extra hours spent on the UoR assessment, and (ii) the work for certification audit is done concurrently with their assessment of the UoR. Many of those who agreed and adopted the middle view confirmed that the auditor spends more time on UoR assessment but they did not know whether this was at the expense of the certification audit. They also accepted that the two audits are related. Mean analysis for this statement is 2.76 confirms the disagreement and obtained the lowest standard deviation (0.97) for this category.

6.4.6 Changes to the Comprehensive Performance Assessment

Wilson (2005) study reported that majority of chief financial officers have confidence in CPA: they believe it will be an effective tool to deliver better services to local communities and would help local people understand how authorities are performing. In the study also the author reported that majority of the respondents believe CPA should be retained because they feel that any replacement of CPA would be worse although majority of the respondents are unconvinced that the benefit of CPA will exceed the costs (Wilson, 2005). Respondents in this study were also asked to respond on changes in CPA.

Table 110: Changes to the Comprehensive Performance Assessment

I would like the CPA system to change in the following ways:	Frequency (%)			
	Agree	Neither Agree nor disagree	Disagree	No view
i. Increase the difficulty of each point on the UoR scale	5.0	5.0	90.0	
ii. Lengthen the UoR scale beyond the four points currently apply	15.0	10.0	75.0	
iii. Change the UoR indicators	20.0	50.0	25.0	5.0
iv. Focus more on outcomes as UoR indicators	70.0	20.0	10.0	
v. Move from the CPA to the proposed Comprehensive Area Assessment	50.0	30.0	20.0	

Notes: N=20
Source: Interview Data, 2008

Table 110 shows the frequency of responses when respondents were asked how they would like the CPA system to change. Almost no-one wished to see the difficulty of each point on the UoR scale increase because they felt that the AC's current requirements were already increasingly difficult and burdensome to them. The AC had moved some requirements from level '3' to become level '2' and new requirements were added every other year. Respondents said that they had little time to respond to the changes which put them in a difficult situation. A few respondents who supported the idea of increasing the difficulty of each point on the UoR scale agreed that the AC had always done that already and would do it anyway, and suggested that it was good to keep authorities working towards improvement.

Similarly very few respondents supported the lengthening of the UoR scale beyond the four points currently used. They suggested that four points are already well represented. The majority of local authorities already scored a 3 and were content at that level. They believed that lengthening the scale would not help make things easier or better. The few who supported the lengthening of the scale beyond four points believed that it could help distinguish local authorities' which majority are now at level 3; the local authorities obtained the same score although their performances are different. Lengthening the scale could help differentiate them better and encourage further improvement.

There were few strong views on the suggestion of changing the UoR indicators, although the number who disagree (25%) was more than agree (20%). The middle views were chosen as UoR indicators were being altered every year. Respondents generally agreed that the UoR indicators needed some change so it could drive improvement and emphasise outcomes rather than processes. They had reservations on the indicators being changed every year which gave them little response time and thus reduced their motivation to improve. They believed that the AC should allow more time for them to reflect on indicators and to learn and improve. They also reflected that changing the indicators too often make them feel that their current efforts are meaningless because they do not enable change to be made before the system has been altered again.

A majority (70%) agree that outcomes should be used more as indicators for UoR instead of processes. Only one respondent disagreed on this statement, doubting the ability to measure outcomes which would be more subjective. Half (50%) of the respondents looked forward to Comprehensive Area Assessment (CAA), because they believe that the indicators in CAA are more rounded on many issues which were not considered under CPA. Those adopting a middle view said that the change will take place anyway; they have no say on it, and are sceptical on whether it would be better than CPA. They feel that before they have harvested the fruit of labour from the CPA, they will be forced to change again. Some believe that changes will further benefit large and highly resourced local authorities, and would leave smaller authorities like the district councils with no chance to be among the top ranks.

Table 111: Mean Analysis and Rank Order – Change to Comprehensive Performance Assessment

Rank	I would like the CPA system to change in the following ways:	Min-Max	Means	Standard Deviation
1	Focus more on outcomes as UoR indicators	2-5	3.70	0.80
2	Move from the CPA to the proposed Comprehensive Area Assessment	1-5	3.40	1.10
3	Change the UoR indicators	1-4	2.89	0.81
4	Lengthen the UoR scale beyond the four points currently apply	1-4	2.20	0.95
5	Increase the difficulty of each point on the UoR scale	1-4	1.90	0.72

Notes: N=20
The mean is average on a scale of 1(='Strongly Disagree') to 5(='Strongly Agree')
Higher means indicate stronger agreement on the statement
Source: Interview Data, 2008

A rank order generated from means to arrange the preference for change to the CPA. Respondents most favoured if outcomes are made as indicators for UoR and least favoured if the difficulty of each point on the UoR scale is increased.

6.5 General discussion

This study highlights the impact of performance measurement system on local authorities – it helps to foster changes and improvement at local authorities but not without limitations and side effects. This is consistent with findings by Sanderson (2001) that performance measurement systems have important limitations as drivers of change and improvement, especially when externally imposed. The author also found external pressures played a key role in promoting greater focus on performance in local government but rather than emphasizing on applying it as tools for change, it has been used as tools to enhance accountability which is also evident in this study.

This study shares similar suggestions by Schick (1999), to achieve the objective of driving change at local authorities, performance targets have to (i) be few in number so it could send strong signals of expectation and allow a clear basis for assessing progress; (ii) challenge local authorities to make changes; (iii) should be jointly selected by each local authority and the authority responsible for overall government performance (the central government). Other suggestions by Schick (1999) which are found to have been embedded in the current performance measurement system are (i) the performance targets are monitored, audited and ascertained whether the targets have been met, and (ii) are part of a larger managerial framework that encourages local authorities to improve performance –the UoR assessment is part of the CPA regime.

This study also shared similar key requirements highlighted by Sanderson (2001). The AC and central government should address several key requirements to improve the assessment regime so that the performance measurement exercise would better achieve its intended objectives:

(a) local authorities need to develop the capacity to achieve change and improvement based upon evidence of performance produced by the assessment system. In this study, local authorities are found to have reservations in terms of timing from one assessment to another and the frequent movement of indicators. These would raise issues on their capacity to achieve change;

(b) the nature of change must be consistent with the key goals and objectives expressing the desired outcomes. This is also found to be ambiguous in some respects in the UoR assessment at local government researched, as majority of the indicators measure processes, which local authorities viewed as not vital in serving the local citizens. Sanderson (2001; 1998) and Smith (1995) suggest that focus and action will be distorted if the key measures and targets in performance measurement systems do not capture the essence of primary values and objectives.

Perspectives of all major stakeholders shall be captured in the performance indicators and domination by managerial interests, or top-down approaches should be avoided (Sanderson, 2001). This study also found that participative approaches to performance measurement and evaluation are very important, with serious consideration over decentralization and empowerment relating to service users (citizens) and front-line staff. These would reflect and clarify the main objectives of local authorities, as well as unravel the ambiguity and conflict between processes versus outcomes and performance versus accountability. Sanderson (2001) wrote that these will help to ensure appropriate definitions of objectives and performance targets as well as spread ownership and develop capacities for evaluative enquiry amongst key stakeholders. I believe that this way, the local citizen would be more engaged with local authorities.

Another implication of performance measurement system is that it changes the way local authorities work. Thus, it is necessary for them to realise that they need to change their organisational culture to enable the capacity for evaluative enquiry to be embedded in their routines and ways of thinking and working. Sanderson (2001) also concluded the same requirements to ensure success of a performance measurement system. The author suggests several key attributes of a culture of evaluation and learning for a successful implementation of performance measurement system at local authorities: (i) a capacity for critical reflection, questioning and challenging existing practices, beliefs and values; (ii) a capacity for effective dialogue, collaboration and communication – breaking down both vertical and horizontal barriers to communication and extending beyond the authority to include external stakeholders; (iii) a capacity for research and analysis to provide sound evidence upon which to base decisions, including recognition of the value of qualitative approaches which can help to foster dialogue with stakeholders and help to include and empower subordinate interests; (iv) a capacity for action planning and effective

implementation to ensure that the required changes are achieved in practice. Based on the findings of this study, these suggestions are shared. These elements are vital to an effective evaluation system.

6.6 Summary

In this chapter, data collected from fieldwork interviews using structured questions were analysed and discussed. The respondents were directors or heads of the finance function at 19 local authorities in the studied region of Yorkshire and The Humber. The first two research questions discussed in Chapter 2 and Chapter 5 of this thesis fed into the design of fieldwork interviews analysed in this chapter. The respondents' views were utilised to answer the final three research questions of this study about whether the auditees view published scores as reflecting their local authority's performance (Section 6.2), what are the perceived factors contributing to the variations in local authority performance (Section 6.3), and how do the auditees view the external audit process and the performance assessment (Section 6.4). Section 6.5 discusses the overall findings from the research questions. The chapter that follows will conclude all the research questions and suggest directions for future research.

The results suggest that the assessment regimes resulting from the NPM initiatives have to some extent promoted efficiency at local government level and have encouraged competition amongst local government organizations. Respondents explained that they seek assistance from other local authorities which are performing well and cooperate with one another to improve their performance. These findings support Hood et al's (1999) suggestion that competition and mutuality could help governance without the need of external inspection; and could promote improvement. However, in the environment of this study, the ratings were achieved through external inspection.

The assessment regimes have also to some enhanced transparency, and succeeded in improving management accountability in the public sector. Greater transparency benefits service providers (the local government) because it allows liability and risk to be transferred, and could therefore enhance public trust and confidence (Power, 1994; 1997). However, the findings from this study are still unable to conclude that greater transparency produced by the assessment regimes promoted trusts or participation. This supports Power's (2004) argument that transparency in the public sector seems not to protect the public or customers, but to protect providers and others by transferring liability from service providers to consumers. Power's (1997) argument in terms of the displacement of trust is also evident in this study from the extent of audit processes and documentation, as well as views of the auditees.

This study supports Hood's (2007) argument that management by numbers is failing. The auditees have reservations in terms of the rating system and the quality of audit. The

auditees suggest that they learn the system and adapt their activities in order to target for better scores. An element of gaming with the system is unavoidable due to the pressure for better scores (Hood, 2007; Hibbard et al, 2003). This confirms Bevan and Hood's (2006) suggestion that current audit arrangements encourage governance by target (i.e. specified measures of what should be achieved). Findings from this study also support several arguments in the literature, among others, that increased regulation has been accompanied by decreases in managerial discretion (Hood et al, 1998); and has led to an increase in formal public sector regulation which has added to the procedural constraints and second guessing faced by public managers (James, 2003). The use of detailed indicators for local authorities reduces managerial discretion and the auditees view this as not being beneficial to local citizens.

Findings from this study will be briefly concluded in the following chapter according to each of the five sub-research questions set for this study. Contributions, implication, recommendations and suggestions for future research will also be discussed.

7 CONCLUSIONS

Introduction	→	Literature Review	→	Methodology	→	Findings & Discussion	→	Conclusion
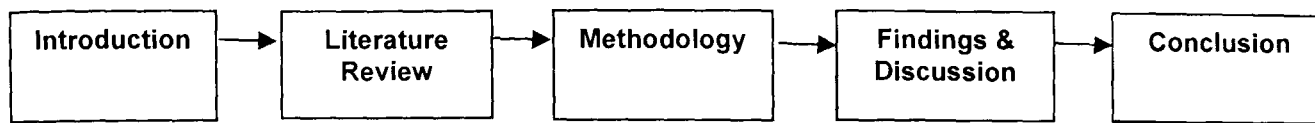
The chapter provides conclusions for this study. The discussion will start with conclusion to the research questions, followed by the main contributions and implications of this study and finally to provide reflections and considers opportunities for further research.

Research Questions	→	Contributions & Implications	→	Reflections & Opportunities
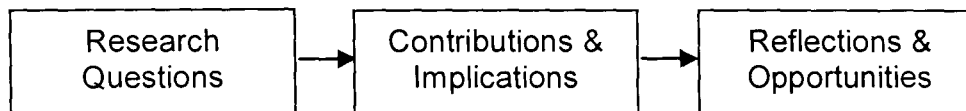
Figure 39: Structure of the Conclusion Chapter

7.1 Highlights of Research Questions

Research Questions	→	Contributions & Implications	→	Reflections & Opportunities
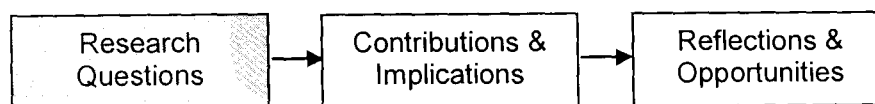
This study began with the main aim 'to discover how external auditing performed at local authorities in England affect local authorities as recipients of the service'. To achieve the aim, five research questions were generated. The main gap that this research fills is to provide and analyse views and feedback from local authorities Director/Head of Finance which are the focus of external audit work. This section will review and conclude all the research questions set to achieve the main aim of the study.

7.1.1 Research Question 1: What are the Functions of External Auditors for Local Councils in England?

The functions of external auditors for local English councils were discussed in Chapter 3 (as Literature Review 2). From this review of external auditors' functions at local authorities in England, I found that their functions are extended from certification audit to cover assessment for UoR which is part of the CPA regime. The auditors report to the AC which administer auditing and assessment at local government on behalf of the central government. Auditors are responsible for the audit of the financial statements and to evaluate local governments' compliance with the requirement of economy, efficiency and effectiveness under the CPA regime. Various literatures support that this initiative is derived from NPM doctrines and the managerial change in the public sector is captured by the acronym of 3Es (Barberis, 1998; Rhodes, 1994). The authors also suggest that the rise in NPM has increased regulation and inspection, which is evident in the extent of reporting requirements to feed into financial statement audit and UoR assessment. Audit teams include the AC staff (District Auditors) and Private Auditors who would spend time at local authorities to inspect and search for evidence for these assessments.

Both audits are done concurrently, and for UoR assessment, local authorities are measured based on five themes developed by the AC which are Financial Reporting, Financial Management, Financial Standing, Internal Control, and Value for Money. Auditors are provided with detailed guidelines and training on how to approach the assessment and their assessments are moderated at regional (audit region) level as well as national level to ensure consistency. Local authorities are given an opportunity to respond to the assessment regime as well as to the assessed performance.

7.1.2 Research Question 2: How do the local councils perform based on their auditor's assessment?

The analysis for this research question is included in Chapter 5. As the auditor's assessments are made public through the local council's website (the annual statement of accounts, CPA scorecards and annual audit letters) and the AC's website (the overall UoR and its theme score and rating), the findings were discussed as published results. Analysis of the local authorities' annual statement of accounts reveals that local authorities in the Yorkshire and The Humber region improved significantly in terms of submission, certification and publication of their annual accounts. Thus, in this situation, inspection did contribute towards better performance (Prat, 2006).

On the aspect of UoR which covers five themes, the published scores show steady improvement since the CPA –the original was first introduced in 2002 to 2004. The published scores for 2005, when CPA –the harder test was implemented, show a decline throughout all local authorities before the scores improved again but at a lower rate than the original regime. Thus the published scores evidence that local authorities improved in all the aspects assessed, suggesting that extra inspection resulting from increased regulations enhanced performance.

7.1.3 Research Question 3: Do the auditees view the published scores as reflection of improvement and position of the local councils?

Findings for this research question are presented in Section 6.2. The published scores are viewed as a fair reflection of local authorities' performance relative to others. However, some reservations are raised in terms of auditors' ability to identify the evidence at local authorities in supporting the indicators provided to them by the AC. The issue of different interpretations by the auditors versus local authorities' for the requirements stated in AC's documentation was raised, which caused dissatisfaction with some of the ratings. Publication of the performance results appeared to promote improvement at local authorities; in some local authorities, it is viewed as competition but in others, it encourages collaboration – greater communication and sharing among all levels at local authorities. Respondents also viewed

that the indicators provided in the AC's KLoEs for UoR assessment have helped them focus their effort and therefore improve on the indicators and scores. However, that does not mean the indicators are getting easier but rather that local authorities are getting familiar with the system after a few years. An element of gaming with the system is unavoidable due to the pressure for better scores (Hood, 2007, Hibbard et al, 2003). Hibbard et al (2003) suggest that making performance information available publicly would stimulate quality improvement especially in the areas where performance is reported to be low. This is in agreement with Bevan and Hood (2006) who suggest that current audit arrangements encourage governance by target (i.e. specified measures of what should be achieved).

The assessment regimes however were not viewed by a majority as contributing towards efficiency and effectiveness at local authorities. It has been a pressure for greater efficiency but for effectiveness, a longer time is necessary. In terms of certification audit, the greatest contribution of external audit is seen as the improvement in financial reporting aspects such as the quality of presentation of the statement of accounts but not so much towards an improvement in financial accounting systems and the timing for approval and publication of the statement of accounts. The assessment regime are not viewed as contributing towards improvement in public trust nor in public participation, although part of the objectives of greater transparency is to improve trust. The assessment regime and its published results have not been viewed as affecting local electors' decisions to vote in local elections nor the choice of political parties. The public has showed little interest in responding to the invitation for public inspection of the local authorities' statement of accounts, possibly due to the difficulty in understanding the accounting terminologies. There is an opportunity to research further into why the public may not be interested in local authorities' assessment and what other information they need from local authorities. The assessment regime was viewed as worthwhile despite reservations about its implementation.

7.1.4 Research Question 4: What factors contribute to the variations in local councils' performance?

Findings for this research question are presented in Section 6.3. KLoEs provided local authorities with detailed indicators of what is going to be assessed. Although the indicators are viewed as helping local authorities in making improvements, the KLoEs are not viewed as reflecting the expectations from local citizens but instead are a reflection of what the central government expects of a local authority. Local authorities felt that some of their effort in fulfilling the assessment regimes was not for the benefit of local citizens. The KLoEs are viewed as increasing their workload which at times may be at the expense of their front-line services. The KLoEs contribute towards making a local authority focused on what they should do while also reducing their freedom in deciding what is best for local citizens.

Improvement in scores is also dependent upon a local authority's ability to continuously improve its performance (on the indicators) as well as its ability to produce a good self assessment report. Some respondents expressed reservations on the fairness of the assessment rules and their auditors' interpretation of the assessment rules. The opportunity to consult the AC on the indicators and assessment rules was not seen as appealing as it was not always beneficial to local authorities. Similar views were shared in terms of the opportunity to appeal for improved scores; in which local authorities prefer to strive for a better assessment in the following year. Resources are viewed as indispensable in achieving better scores; for example in terms of an optimum number of staff to cope with necessary documentation to provide evidence for auditors. Local authorities also viewed that having their performance ranked helped them identify areas in which they need to improve and they normally put more effort and focus on the areas where their performance is worse. Being new to the assessment regime (like the DC which were introduced to the system later than the STCC) is not viewed as factors which affect their scores.

7.1.5 Research Question 5: How do the auditees view the external audit process and the performance assessments?

Findings for this research question are presented in Section 6.4. Improvement from a '3' to a '4' is viewed as the hardest because level '4' requires innovation, which local authorities think should be a big leap and they are often content to achieve a '3'. To decline from a '4' to a '3' is viewed as highest risk and to decline from a '2' to '1' will affect their reputation which they viewed as very damaging. Of all the five themes assessed under UoR audit, Value for Money is viewed as hardest followed by Internal Control, Financial Management, Financial Standing and the easiest being Financial Reporting. VFM is viewed as hardest because of the subjectivity of its indicators. Some respondents also stated that more could be done by the central government to clarify the objectives of the assessment via policy documents. Although not a majority, some respondents viewed that sufficient technical support from the AC is available.

Local authorities viewed that having AC as performance reviewer has not reduced control and intervention by the central government and having the private sector auditor conducting their audit does not mean that they communicate less with the AC. They often communicated more with the audit team assigned to them than the AC, but all the instructions and guidelines come from the AC and they always go back to the AC for clarification. Respondents have reservations in terms of assessment activities and judgement and scoring by the District Auditors and the private auditors, because some believe that they are evaluated more harshly by different auditors. Although many agree they have to satisfy their auditors and the assessment indicators, a majority viewed that their priority should be with satisfying local citizens. The auditors are not viewed as spending more time on the UoR at the expense of certification audit as both audits are related and the

additional time auditors have to spend on UoR audit is reflected in fees paid by local authorities.

The development of each point on the UoR scale is already viewed as becoming more difficult. The four-points currently applied are considered as reasonable. Thus, respondents do not favour change in any of these two aspects. A majority believed that the UoR indicators should reflect outcomes required of them rather than being evaluated on processes. They have reservations in terms of the intensive changes made on the indicators. The time allocated for them to respond on every set of indicators is viewed as too short, and did not enable them to have some changes embedded in their system. Although not a majority, many viewed that moving towards CAA to be a better option than the CPA because they had been consulted on the new regime. However, many expressed concern that changes are made too quickly and were pessimistic about the new assessment system.

7.2 Research Contributions and Implications

Research Questions	→	Contributions & Implications	→	Reflections & Opportunities
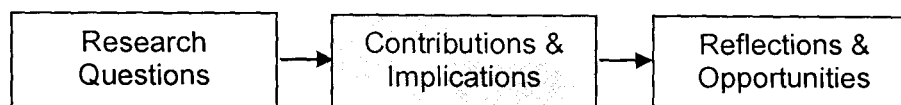
This study adds to the existing knowledge of the impact of public sector reforms, increased regulations and inspection and contribution of external audit (see Power, 2003; Hood et al, 1999; Pallot, 2003; Pollitt, 1994; James, 2003; English, 2003). This study confirms the argument that regulation inside government is significant (Hood et al, 1999), as well as to support the theory that audit has exploded beyond the financial certification function (Power, 1994; 1997). Similarly, this study confirms that the NPM notion of decentralization is not achieved but, instead, that top-down control is implemented (Hood, 1995; Power, 1997). This supports Pollitt's (1994) observation that in practice, NPM may work better in some areas of the public sector than in others, as well as that NPM focuses on accountability, competition, results and efficiency (Gray and Jenkins, 1993).

Although the assessment regimes forced local authorities to improve on some aspects of their activities, it seems not to have been as successful at improving effectiveness. This study supports Power's (1994) argument that the existing audit and inspection may not promote improvement. The assessment regimes encourage governance by target, compliance accountability, and gaming. As top down control is enforced, it limits managerial discretion (Hood, 1995) and discourages innovation. It is important to give local authorities freedom to determine what is best for their local citizens in regard to their activities and services. However, this has been limited by the detailed rules and procedures required of them. Auditees believe that the intensity of the audit environment has taken out time available to accommodate their main services.

Hood et al's (1999) suggestion that inspector-free mechanisms of control over public bureaucracy could work is supported in this study. Auditees revealed that the ranking of performance results promoted both competition and cooperation amongst local authorities.

This thesis is the first of its kind to investigate the impact of external audit and use of resources assessment at local authorities in England. In that regard, the thesis creates the foremost knowledge base using the regulation inside government and audit explosion theories to understand the impact of external audit at English local government. This study also provided understanding of the external auditing processes going on at local government, the extent of the processes, its output and the actors involved. Besides analysing the results of the assessment regimes for five years, from 2002-2006; this study also documents changes in local authorities' certification audit performance for 7 years from 2000-2006. Most importantly, this study documents auditees responses and views in terms of the assessment subjected on them.

This study adds specifically to research on the audit and inspection of local government. The extension of the work of external auditors beyond certification audit has been debated by various researchers in terms of its impact and policy implications but there have been very few empirical studies concentrating on the views of local authority as auditees and none in this particular geographical region. This thesis is the first of its kind to document an investigation into the external auditing process and its impact when applied to the CPA and to consider its achievements, implications and explanations from the auditees' point of view. In that regard, this thesis creates a knowledge base on the application of auditing as performance assessment to drive performance in local authorities. It opens the opportunity for similar studies at various stages of the application of the assessment regime. This study provides an understanding into the actual dilemmas and experiences faced by local authorities lacking in existing literature. The knowledge could be used to improve the implementation of the regime as well as to design better ways to assess performance or possibly to align auditing procedures to best serve as performance assessment alongside more traditional financial statement audits.

In sum, an important contribution of the thesis is that its empirical findings offer strong support to the theoretical explanations put forward to highlight the impact of external audit and use of resources assessment at local government. Table 112 presents practical recommendations concluded from my study.

Table 112: Practical Recommendations

Practical Recommendations:
Do more follow-up and diagnosis with local authorities. Indicators for measuring performance could be enhanced in terms of its accuracy if feed back and follow up is done with the local authorities. Although the AC wants to maintain independence, listening to local authorities is vital in generating appropriate indicators. Current consultation is not enough to gain feedback from local authorities. Auditees also wish that their views will be heard more and consultation should be more effective.
The AC should provide clearer guidelines for local authorities, and the auditors should be able to specifically address what local authorities need to fulfil certain indicators. Auditees want the auditors to provide clearer guidance rather than having local authorities wondering and trying before later being told they are wrong.
Make available and update recent best practices suitable with current indicators. The best practices available are outdated compared to the current indicators and the AC should provide more best practice case studies if they intend to assist local authorities to improve.
Allow longer time period for each indicator, to allow learning and properly adopting the improvement.
The AC and central government should be aware of the needs to adapt to the required indicators. Provide local authorities with more time to respond to each indicator. Current practice of issuing the indicators for assessment late into the assessment year has not been helpful as local authorities have limited time and manpower to achieve those. This causes frustration and stress especially in smaller local authorities.
Engage with local electors to enhance trust and to convey the transparency mechanism in place and to understand their needs.
Listen more to the auditees. Engage local authorities in the accountability mechanism for measuring performance and internal control.
To get local authorities involved in designing the indicators. As the direct person dealing with the public and services to the local public, they are the right persons to identify what is needed in their local authorities and by the local electors.
The AC to provide a detailed manual to introduce public sector and local government for the auditors. The auditors should be made to understand the nature of public sector and local authorities' operations as well as local factors affecting local authorities.
Auditors are trained properly for public sector audit and local governments and have appropriate knowledge about the local authorities they audit. Information on local authorities and its specific criteria could be made available as manual for auditors and local authorities should be allowed to brief auditors on their environment prior to audit.
The AC need to ensure that auditors are competent and have wide knowledge of public sector and local authorities' activities and background. Follow up with local authorities and listen to their feedback could help identify weaknesses in auditors' judgement and necessary information vital to auditors for their assessment.

All of the practical recommendations mentioned in the table above appeared in this research as significant factors in enhancing the practice of measuring performance and improvement of local authorities' services. Moreover, the AC should allow local authorities the flexibility to respond if an indicator is appropriate or not and to suggest more relevant indicators to measure them. This way reconciliation between what the central government and AC

assume as appropriate measurement and local authorities' perception can be achieved. The local authorities would also value more the indicators should their responses be heard and considered. The auditors must also be made to understand the indicators and its appropriateness to any one local authority and to score accordingly within that understanding. These would benefit all parties involved and achieve the purpose of accountability mechanism in local government.

7.3 Reflections and Opportunities for Further Research

| Research Questions | → | Contributions & Implications | → | Reflections & Opportunities |
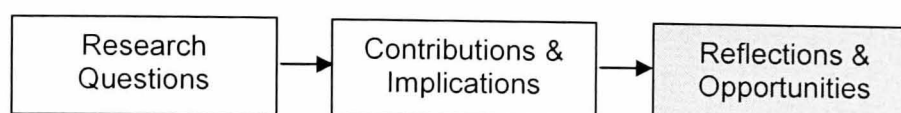
The process of this study provided me with experience in the general conduct of research and the specific topic being researched. Throughout the years of researching for this thesis, I tried from time to time figure out how this could help me improve the system in my own country, how and where should I start adapting this comprehensive research process into my country's environment. Therefore this section will discuss the experience I went through and followed with the opportunities that I see for further research as a continuity of this study. I believe that the findings of this research can be considered new and to add value to existing literature.

However, due to time and budget constraints this research is conducted on a focused region using a multiple-cases study of the Yorkshire and The Humber region only. Other regions might yield similar or different results. Therefore an opportunity to extend the research to other regions is open. Reflecting on the period taken to gather responses from all respondents in the focus region, I should not underestimate the time and effort to do this. Respondents, being the chief/head of finance at local authorities, are not always available for researchers to talk to, so this poses risks in data collection. Utilising various ways of obtaining their responses step by step from postal mail to phone calls proved to be helpful in calling in responses and participation although it takes a longer time.

It is also important to note that the director/head of finance at each local authority is the best person to approach for views on this aspect because other employees may not have the overall view of the topic. This is reflected in my pilot test where I interviewed both managers for certification audit and UoR audit as well as the director of finance, in which I found that the director of finance is able to provide the whole picture of the topic while the managers normally have limited views beyond their own work area.

This study was quite innovative; in a way that it fills gaps in literature in terms of auditees responses to the audit process and at the same time documents processes in the development of performance measurement innovation at local governments. Step by step approach to understand the issue of concern are documented and discussed before

responses from auditees were explored, analysed and discussed. Several themes seem to emerge for the first time in this research, as examples:

- the roles of audit and inspection in promoting improvement;
- the suitability of auditors to measuring local governments' performance;
- the suitability of the indicators;
- the clarity of objectives of local authorities to enable development of appropriate indicators;
- impact on local authorities' staff in terms of their morale and motivation;
- impact on their front-line services, and their priorities

It is necessary to mention the link between this research context and my professional interest on the external audit for local government, which is the key reason why I chose this topic to research. Many people would question why I choose to study local authorities in England when the sponsor of my study is the Malaysian Government and I am going home to serve my country after completing this study. How could this study contribute to Malaysia, a developing country which the accounting system at local government is still very different from England? I look forward to local authorities in Malaysia becoming transparent, accountable, efficient and effective (or at the least with transparency and clear accountability to detect the causes of inefficiency and ineffectiveness).

Being a developing country, the accountability system, efficiency and effectiveness of local government are different and relatively unexplored compared to those of developed countries like the United Kingdom. There have been several attempts to introduce a 'star-rating' system in an effort to improve competitiveness among local authorities. These attempts somehow invited a lot of criticism as the evaluation criteria are often unclear and the reward system is controversial. That is why the storyline of this research started from the very beginning of the local government structure until the end. That is to equip me with the overall context of the external audit process so I could later break them into smaller chunks of research which will start from the beginning.

In England, there is a lot of criticism from researchers on aspects of accountability measures for local authorities. However, little has been found which highlights how much the process has impacted on local authorities as the auditees. This research has attempted to contribute to both, (i) local authorities and regulators in England by discovering how local authorities as auditees are performing, responding and adapting to the process as well as (ii) a developing country by documenting the processes, measuring and analysing the improvement and experiences of local government in England. The findings should therefore be very useful for further research to generate improvement at local authorities.

7.4 Concluding comments

This research has offered insight in the study of external audit used as performance measurement in local government. It provided an initial view of the situation in Yorkshire and The Humber with regard to external audit and what are the perceptions of auditees on the effects of external audit. Supporting the view that the assessment activity is going on at a large scale and auditing has exploded from its traditional function, this study proposed that the assessment process may be more effective if the AC as regulator and the central government enhanced consultation with the auditee, consider the local and organisational environment of a local authority and the auditors should better understand the nature of operations at local authorities. It also highlights some aspects were improved by the external audit exercise, and improvements and discussion are deemed necessary to make the activities more effective.

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APPENDIX 1: CORRESPONDENCE TO REQUEST FOR PUBLISHED DOCUMENTS NOT AVAILABLE ON WEBSITE

Dear Ms / Mr .....,

.... COUNCIL

I am Haslida Abu Hasan, PhD student at the University of Sheffield under Professor David Heald's supervision. Thank you very much for your response to my queries posted on your council's website. I have received your statement of accounts which completed my record for .... Council's accounts from year 2000/01 to 2004/05.

However, to assist my study, I still need some further documents and information regarding .... Council:

1. the statement of accounts for year 1999/2000

2. unaudited accounts published for public inspection for the years 1999-2000 to 2004-05

3. information on which Council committee considers the unaudited accounts before audit and public, and a copy of the minutes of that meeting

4. information on which Council committee considers accounts after they have been certified by the auditor, and a copy of the minutes of that meeting

5. 2005-06 unaudited accounts when these become available

If the above are available electronically, please send them to me at ecp05ha@sheffield.ac.uk. If they are only available in hard copy, please send them to me at: Haslida Abu Hasan, Management School, University of Sheffield, 9 Mappin Street, Sheffield, S1 4DT.

Thanks for your time and help.

Kind regards,

Haslida Abu Hasan

Research Student, Management School
University of Sheffield
9 Mappin Street
Sheffield S1 4DT

APPENDIX 2: FIRST CORRESPONDENCE WITH THE DIRECTOR OF FINANCE- LETTER BY POST

Mr/Ms ....
Executive Director Financial Resources
BARNSLEY METROPOLITAN BOROUGH COUNCIL
Town Hall
BARNSLEY S70 2TA

Dear Sir,
RESEARCH: THE IMPACT ON LOCAL AUTHORITIES OF EXTERNAL AUDIT AND OF 'USE OF RESOURCES' ASSESSMENT

I am a doctoral student from The Management School, University of Sheffield, and currently undertaking research on "The Impact on Local Authorities of External Audit and of 'Use of Resources' Assessment". I am writing to request your assistance with my research which focuses on the government region of Yorkshire and The Humber. As your local authority is one of the 22 local authorities in the region, the data obtained are vital to the study. Data collection for this research is planned in two parts – an interview, preceded by completion of a questionnaire.

I am hoping to interview (1) the director of finance; (2) a manager responsible for certification audit; and (3) a manager responsible for use of resources within your local authority, because this study covers both aspects of certification audit and 'use of resources' assessment. To assist in the interview process, I have developed a questionnaire for each respondent on which to mark his/her answers and enclose a self-addressed envelope for each respondent to return the questionnaire before the interview takes place.

The questionnaire comprises three sections: A-Certification Audit; B-Use of Resources; and C-Comprehensive Performance Assessment. Choices for the answers are on a 5-point scale ranging from 1-Strongly Disagree to 5-Strongly Agree with a blank space after each section for the respondent to write other comments regarding the section should they have any. As not all questions will necessarily be relevant to all respondents, a 'No View' option is provided next to the 5-point scale for the respondent to choose if he/she feels unable to answer.

The actual interview, which is expected to take not more than an hour for each respondent, would explore the reasoning behind some of the answers. It would be helpful if all three meetings could be held on the same day. I would ask if you could choose any day convenient to you in April 2008. If that is not feasible, could you please suggest alternative dates that would be suitable to you?

I promise to maintain strict confidentiality in regard to all responses I receive and sincerely hope that you will be able to help with this research. Your assistance in collating information for this research would be invaluable. I can be contacted at the above address.

Your help is greatly appreciated and I hope to hear from you soon.

Yours faithfully,

Haslida Abu Hasan
Encs: 1-Synopsis
        2-Questionnaires; and
        3-Self-addressed, pre-paid envelopes

APPENDIX 3: SECOND CORRESPONDENCE WITH THE DIRECTOR OF FINANCE- EMAIL

Dear Mr. / Ms. xxxx,

I am a doctoral student from The Management School, University of Sheffield, and currently undertaking research on the topic above. I am writing to request your assistance with my research which focuses on the government region of Yorkshire and The Humber.

(1) As this study covers 22 local authorities in Yorkshire and The Humber, your help is very important. Data collection for this study is planned in two parts- an interview, preceded by completion of a questionnaire.

(2) I have sent three printed copies of questionnaires to your local authorities with synopsis of my study as well as self-addressed, prepaid envelopes for three respondents: (1) the Director of Finance; (2) a manager responsible for certification audit; and (3) a manager responsible for use of resources within your local authority.

(3) Unfortunately, I have not received any respond from your local authority and am not sure as to whether you have received the questions.

(4) Therefore, I attached with this email: (i) a synopsis of my study for your information and (ii) the questionnaire for you and other respondents to separately complete the questions electronically and return to me via email attachment.

(5) I would also appreciate if you would be willing to allocate an hour for a discussion with me on the topic, you can suggest any time convenient to you before 30 June 2008. I am hoping that you will not hesitate to respond via questionnaire even if you do not have time for interview. There are spaces to write additional comments should you have any.

(6) I promise to maintain strict confidentiality in regard to all responses I receive and sincerely hope that you will be able to help with this research. Your assistance in collating information for this research would be invaluable.

Your help is greatly appreciated and hoping to hear from you soon.

Sincerely,
Haslida
--
Haslida Abu Hasan
Research Student, Management School
University of Sheffield
9 Mappin Street
Sheffield S1 4DT
Tel: 0114 2223447

APPENDIX 4: THANK YOU NOTE AND REQUEST FOR INTERVIEW EMAIL

Dear Ms ....,

Thank you very much for the completed questions. I am sure it will help a lot towards my research.

Part of my data collection is to have discussion on the responses given for the questions, I would be grateful if you can allocate some time for me to meet you, if that is possible. The discussion would take less than an hour and be based on the questions you have marked. You can allocate any time from now until end of August 2008.

I look forward to hearing from you.

Many thanks.

Sincerely,
Haslida

Haslida Abu Hasan
Research Student, Management School
University of Sheffield
9 Mappin Street
Sheffield S1 4DT
Tel: 0114 2223447

APPENDIX 5: THANK YOU EMAIL AFTER INTERVIEW

Dear Ms ....,

Thank you very much for your help with my research. I will use your responses anonymously and will send you summaries of the research findings after I completed data analysis.

I hope my study will be useful for local authorities and the Audit Commission.

Many thanks.

Sincerely,

Haslida

Haslida Abu Hasan

Research Student, Management School

University of Sheffield

9 Mappin Street

Sheffield S1 4DT

Tel: 0114 2223447

APPENDIX 6: EMAIL FOR REPORT ON RESEARCH FINDINGS TO RESPONDENTS

Dear Mr ...... ,

THE IMPACT OF EXTERNAL AUDIT AND USE OF RESOURCES ASSESSMENT ON LOCAL AUTHORITIES: A STUDY ON YORKSHIRE AND THE HUMBER REGION OF ENGLAND

Many thanks for your invaluable help with my Phd research.

As promised, I attached herewith a summary from the descriptive analysis of the quantitative data collected via questionnaires. The information are presented in tables according to relevant topics (from my point of views).

I also included a table of practical recommendations concluded from the findings.

Please email me should you require further information or wish to make suggestions.

Thank you.

Sincerely,

Haslida

Haslida Abu Hasan

Research Student, Management School

University of Sheffield

9 Mappin Street

Sheffield S1 4DT

Tel: 0114 2223447

APPENDIX 7: EXAMPLE OF THE KLOE LEVELS FOR UOR

1. FINANCIAL REPORTING
How good are the council's financial accounting and reporting arrangements?

Key line of enquiry
1.1 The council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers

Audit Focus

Evidence that:
- the council's accounts are compiled in accordance with statutory and professional reporting standards;
- the council's accounts are supported by comprehensive working papers
- the accounts and supporting working papers are prepared and approved in accordance with relevant timetables

Criteria for Judgement

Level 2	Level 3	Level 4
* The council's accounts were prepared in accordance with statutory requirements, statutory/regulatory timetables, relevant accounting and reporting standards, and the council's agreed accounting policies. * The auditor received auditable accounts, including a complete set of financial statements, disclosures and notes, in accordance with the timetable agreed with the audited body. *The accounts submitted for audit presented fairly, but contained several non-trivial errors. * Comprehensive working papers supporting the accounts were provided at the start of the audit to the standard specified by the auditor. * Guidance made available to staff on final accounts closedown procedures, including relevant timetables agreed with the auditor and allocation of tasks to individual members of staff, were adhered to.	* The accounts submitted for audit presented fairly and contained only a small number of non-trivial errors. * All additional requests from the auditor were responded to promptly in accordance with any agreed deadlines. (now bold) * The accounts submitted to the council/committee meeting at which they were approved were accompanied by an explanatory paper providing interpretation of the accounts and highlighting key issues for the benefit of members. * The accounts were subject to robust member scrutiny prior to approval.	The accounts submitted for audit presented fairly and contained only errors considered 'clearly trivial'. The quality of the working papers provided was exemplary.

APPENDIX 8: CHECKLIST FOR OPEN-ENDED INTERVIEW WITH THE AUDIT COMMISSION'S MANAGER

Table 27: Checklist for open-ended interview with the Commission's manager

1	**DOCUMENTATION**
	- to check for documentation that is still missing such as detail KLoEs scores (from 2005 to 2006)
	- to confirm several information published on the web- rules for the scores, assessment of the KLoEs, self assessment procedures and application (how far do the published rules being followed; any changes?)
2	**UOR'S OVERALL AND THEMES**
	- the technicality of every themes, to rank their order of difficulty to achieve (for themes with technical KLoEs-faster to achieve?, more difficult KLoEs – requires longer term and cumulative effect of many functions)
	- Why VFM is self assessed but not others? Will it be introduced to other themes?
	- VFM's score depends on achievement in other themes? Can we say that VFM concludes the other themes or overall achievement of local authorities
	- How does the mechanism for allocation of auditors to local authorities work? Any rules i.e. LA with problems will be assessed by AC's auditors or otherwise?
	- the importance of UoR to CPA scores, different framework for STCC and DC (why some LAs with good UoR scores didn't obtain 4 stars but some with lower UoR obtained the 4 stars
	- Any changes to the relative importance of UoR when CAA is implemented?
	- How often are the changes in regulation and requirement, very often/ fast? Why? (to check on its impact towards my data collection-need to collect data fast so that respond are standardised)
	- How do local authorities and auditors cope with the changes in requirement? Notification? Training? Guidelines?
3.	**PERFORMANCE AND SCORES**
	- local authorities performance and their scores *(to bring the line graphs-color printed)*
	- to ask for the detail KLoEs scores whether they collected, published and possibility of obtaining them
	- to discuss whether AC believes that the scores reflect local authorities improvement, how much is the impact of grading drift/manipulation *(quote from newspapers/article)*
	- how often does the auditors perform moderation for the scores they provided to the local authorities? (in the event when auditors find it difficult to allocate scores, they will consult other auditors, discuss and moderate the scores)
	- high risk of different valuation between auditors? Any differences when local authorities were evaluated by private auditors versus district auditors?
	- why are the DC weaker than the STCC, will DC scores influence their CC?
	- how can we compare performance from the UoR scored from 2002-2004 and the 2005-2006? are they comparable and reflect improvement
	- [Has auditors collected centrally scores for KLoEs for each local authorities, if so for which years?
	- Are they publicly available, where, can I have them?
	- Does local authorities' know the KLoEs' scores, do they have all information on the KLoEs' scores?
4	**RULES FOR THE SCORE**
	- how does the KLoEs scores contribute to theme's scores and therefore the overall UoR
	- *(to bring the published rules from AC website)*
	- the published rules applied, any changes and why?
	- why is only VFM self assessed, how do auditors scored based on the self assessment
	- the application of VFM rules in scoring for overall UoR (AC mentioned that the rule was not applied for both 2005 and 2006 results and will not be applied for 2007 too because CPA will be replaced with CAA and 2007 is considered transition year)
5.	**KEY LINES OF ENQUIRIES**
	- who develops the KLoEs: experts opinion, local authorities participation, committee (members?),
	- what is the KLoEs based on (public needs?) - who define the needs
	- guidance provided to local authorities and auditors: published guide (available on the web); expertise assistance for local authorities to help them achieve the KLoE and for auditors to assess properly; supervision in the work performed by auditors?; any training provided
	- confirm auditors are the appropriate experts to assess UoR; any other profession preferred?
	- extent of difficulty to achieve in levels of KLoEs, the organisation of KLoE levels, the need for movement between levels (tightening) and removal from the KLoEs (change requirements)
	- short term versus long term targets in KLoEs: reflected in it's levels?
	- the nature of KLoEs for the themes
	- which is more technical and faster to achieve [from FR to VFM]
	- the levels in KLoEs, level 1 is faster (easier) to achieve?
	- difficulty to move from one scores to another, rank the order of difficulty to improve for each UoR theme
6.	**APPLICATION FOR REVIEW**
	- how many percent relatively local authorities request for review of their performance?
	- why (what motivates local authorities to request) and who normally request for review?
	- the success rate, the impact on relationship local authorities-auditors, who will perform the review

APPENDIX 9: STRUCTURED QUESTIONNAIRES FOR INTERVIEWS: FRONT PAGE

The
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Of
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The impact on local authorities of external audit and of 'Use of Resources' assessment

This fieldwork is part of the doctoral project of Haslida Abu Hasan, who is supervised by Professor David Heald of the University of Aberdeen Business School and Professor Ron Hodges and Dr Jane Frecknall Hughes of The University of Sheffield Management School. The intention is that respondents will mark their answers before the interview, which will then explore the reasons for the answers that have been chosen.

These questions are for separate interviews with the Director of Finance, the Head of Financial Reporting and the Manager with responsibility for the local authority's compliance with the Use of Resources system. Not all questions will necessarily be relevant to all respondents. Unless the question indicates to the contrary, each respondent should give their own views and answers in relation to their own local authority. Interview responses will be treated as confidential and they will be used only in an anonymous format.

The questions prepared are to explore the impact of external auditors' work on the local authority, covering both aspects of certification audit and 'Use of Resources' assessment. There are three sections, A to C, with a blank spaces after each section for respondent to write additional comments regarding the answers for that particular section.

(Researcher will remove this section from marked responses to replace with coding system for referencing to ensure confidentiality)

NAME OF LOCAL AUTHORITY:

<u>**RESPONDENT INFORMATION**</u>

NAME:	_____
POSITION:	_____
QUALIFICATIONS:	_____
EXPERIENCE (IN YEARS):	Private Sector_____
	Public Sector_____
	Local Government_____
MEMBERSHIP OF PROFESSIONAL BODIES (YEAR QUALIFIED):	1. 2. (_____) (_____)
INTERVIEW DATE:	_____
INTERVIEW TIME:	_____
CONTACT DETAILS:	Email_____
	Tel no_____

APPENDIX 10: STRUCTURED QUESTIONNAIRES FOR INTERVIEWS: SECTION A- CERTIFICATION AUDIT

Please circle your response to each statement that follows using the following scale:

Strongly agree	5
Generally agree	4
Neither agree nor disagree	3
Generally disagree	2
Strongly disagree	1

If you have no view on a particular question, please tick the "No View" box.

A	Certification Audit	Strongly agree	Generally Agree	Neither agree nor disagree	Generally disagree	Strongly disagree	No view
A1	External audit contributes significantly towards improvements in						
i	financial accounting system	5	4	3	2	1	
ii	financial reporting	5	4	3	2	1	
iii	quality of presentation of the statement of accounts	5	4	3	2	1	
iv	time taken for approval of the statement of accounts	5	4	3	2	1	
v	time taken for publishing the statement of accounts	5	4	3	2	1	
A2	The requirement for public inspection of the council's pre-audited statement of accounts contributes to improved financial reporting performance	5	4	3	2	1	
A3	Some local electors use their rights to inspect the council's pre-audited statement of accounts	5	4	3	2	1	
A4	Generally, objections to the local authority's pre-audited statement of accounts would cause delay in						
i	receiving approval from councillors	5	4	3	2	1	
ii	obtaining certification from the auditor	5	4	3	2	1	
iii	publishing the statement of accounts	5	4	3	2	1	
A5	Generally, some objections to the pre-audited statement of accounts signal problems with the local authority's						
i	financial management	5	4	3	2	1	
ii	financial accounting system	5	4	3	2	1	
A6	If a local authority were to be the subject of a 'Public Interest Report' issued by the auditor, that event would						
i	alert the local authority to weaknesses in its financial accounting system	5	4	3	2	1	
ii	alert the local authority to weaknesses in its financial management	5	4	3	2	1	
iii	damage the local authority's reputation	5	4	3	2	1	
iv	pose problems for the finance department	5	4	3	2	1	
v	pose problems for the local authority's senior management	5	4	3	2	1	
vi	pose problems for the elected councillors	5	4	3	2	1	
vii	indicate that the local authority has a poor relationship with its auditor	5	4	3	2	1	
A7	The Audit Commission fairly allocates auditors to audit local authorities	5	4	3	2	1	
A8	The auditor spends more time on Use of Resources assessment at the expense of financial audit	5	4	3	2	1	
	Please provide any additional comments which you may have in relation to Certification Audit:						

APPENDIX 11: STRUCTURED QUESTIONNAIRES FOR INTERVIEWS: USE OF RESOURCES ASSESSMENTS

B	The Use of Resources (UoR) Assessment	Strongly agree	Generally Agree	Neither agree nor disagree	Generally disagree	Strongly disagree	No view
B1	Sufficient policy support has been available from Central Government	5	4	3	2	1	
B2	Sufficient technical support has been available from the Audit Commission	5	4	3	2	1	
B3	The Audit Commission consulted local authorities in an appropriate way before the indicators and assessment rules were determined	5	4	3	2	1	
B4	The consultation opportunity is worthwhile	5	4	3	2	1	
B5	The assessment indicators of Key Lines of Enquiry (KLoE) have						
	i provided my local authority with a clear picture of what is expected of them by local citizens	5	4	3	2	1	
	ii provided my local authority with a clear picture of what is expected of them by Central Government	5	4	3	2	1	
	iii increased the workload of my local authority	5	4	3	2	1	
	iv reduced my local authority's freedom in deciding what is best for local citizens	5	4	3	2	1	
	v helps my local authority to focus on what should be improved in order to obtain better scores	5	4	3	2	1	
B6	A local authority's score will drop if it does not continuously improve its performance on the indicators	5	4	3	2	1	
B7	The assessment has helped improve my local authority's relationship with the external auditor	5	4	3	2	1	
B8	Having the Audit Commission as performance reviewer has reduced intervention from Central Government	5	4	3	2	1	
B9	In general, if a local authority is assigned to be audited by private auditors instead of the District Auditor						
	i communication with the Audit Commission will be lessened	5	4	3	2	1	
	ii assessment activities will **not** differ	5	4	3	2	1	
	iii judgement and scoring will **not** differ	5	4	3	2	1	
B10	Satisfying the auditor is more important that satisfying local citizens	5	4	3	2	1	
B11	The Self Assessment currently used for the Value for Money (VFM) theme should be introduced for other UoR themes	5	4	3	2	1	
B12	The UoR rankings published by the Audit Commission						
	i are a fair reflection of my local authority's relative position	5	4	3	2	1	
	ii have promoted competition among local authorities	5	4	3	2	1	
B13	The published scores by the Audit Commission show a significant improvement from one year to another since 2002:						
	i The scores are a fair reflection of performance	5	4	3	2	1	
	ii The scores rose because local authorities knew where to improve through the indicators provided	5	4	3	2	1	
	iii The assessment indicators become easier to achieve after a number of years	5	4	3	2	1	
B14	Local authorities with more resources are likely to achieve better scores	5	4	3	2	1	
B15	The scores allocated for each assessment have helped my local authority target areas for improvement	5	4	3	2	1	
B16	My local authority puts more effort and focuses on the areas where performance is worse	5	4	3	2	1	
B17	Focusing on easier indicators will improve scores more than focusing on the worst performance areas	5	4	3	2	1	
B18	Making use of the appeal process						
	i would increase the chances of obtaining improved scores	5	4	3	2	1	
	ii would damage our relationship with auditors	5	4	3	2	1	
	iii would invite more news coverage	5	4	3	2	1	
	iv would increase costs	5	4	3	2	1	

B19 Please rank the following improvements in UoR themes' score in order of difficulty (1 being easiest, 3 hardest):

i	From '1' to '2'	
ii	From '2' to '3'	
iii	From '3' to '4'	

B20 Please rank the following declines in UoR themes' score in order of risk of occurrence (1 being low risk and 3 high risk):

i	From '4' to '3'	
ii	From '3' to '2'	
iii	From '2' to '1'	

B21 Please rank the following UoR themes in order of difficulty meeting their KLoEs (1 being easiest , 5 hardest):

i	Financial Reporting	
ii	Financial Management	
iii	Internal Control	
iv	Financial Standing	
v	Value for Money	

			Strongly agree	Generally Agree	Neither agree nor disagree	Generally disagree	Strongly disagree	No view
B22		The UoR assessment contributes to						
	i	increased efficiency in local authorities generally	5	4	3	2	1	
	ii	increased efficiency in my local authority	5	4	3	2	1	
	iii	increased effectiveness in local authorities generally	5	4	3	2	1	
	iv	increased effectiveness in my local authority	5	4	3	2	1	
B23		The UoR exercise has improved						
	i	public trust in my local authority	5	4	3	2	1	
	ii	public participation in my local authority's activities	5	4	3	2	1	
	iii	public trust in local government generally	5	4	3	2	1	
	iv	public participation in activities organised by local government generally	5	4	3	2	1	
B24		The UoR scores were declined for 2005 when 'the harder test' was first introduced because local authorities were not familiar with the new system	5	4	3	2	1	
B25		District Councils are scoring lower than the Single Tier and County Councils because of the novelty to them of the assessment system	5	4	3	2	1	
B26		The assessment rules for UoR are fair	5	4	3	2	1	
B27		The auditor's interpretation of the UoR assessment rules is fair	5	4	3	2	1	
B28		The UoR assessment has been a worthwhile innovation	5	4	3	2	1	

Please provide any additional comments which you may have in relation to UoR:

APPENDIX 12: STRUCTURED QUESTIONNAIRES FOR INTERVIEWS: COMPREHENSIVE PERFORMANCE ASSESSMENTS

C		*The Comprehensive Performance Assessment*	Strongly agree	Generally Agree	Neither agree nor disagree	Generally disagree	Strongly disagree	No view
C1		Scoring higher for the						
	i	overall UoR score is important to obtain good CPA stars	5	4	3	2	1	
	ii	VFM theme score is important to achieve good overall UoR score	5	4	3	2	1	
C2		The published Comprehensive Performance Assessment results have influenced the decision of local electors						
	i	on whether to vote in local elections	5	4	3	2	1	
	ii	on which political party to vote for	5	4	3	2	1	
C3		I would like the CPA system to change in the following ways:						
	i	Increase the difficulty of each point on the UoR scale	5	4	3	2	1	
	ii	Lengthen the UoR scale beyond the four points currently apply	5	4	3	2	1	
	iii	Change the UoR indicators	5	4	3	2	1	
	iv	Focus more on outcomes as UoR indicators	5	4	3	2	1	
	v	Move from the CPA to the proposed Comprehensive Area Assessment	5	4	3	2	1	

Please provide any additional comments which you may have in relation to Comprehensive Performance Assessment:

THANK YOU VERY MUCH FOR YOUR ASSISTANCE

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