



Accounting and Control in
Executive Agencies and
Executive NDPBs in Scotland

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by

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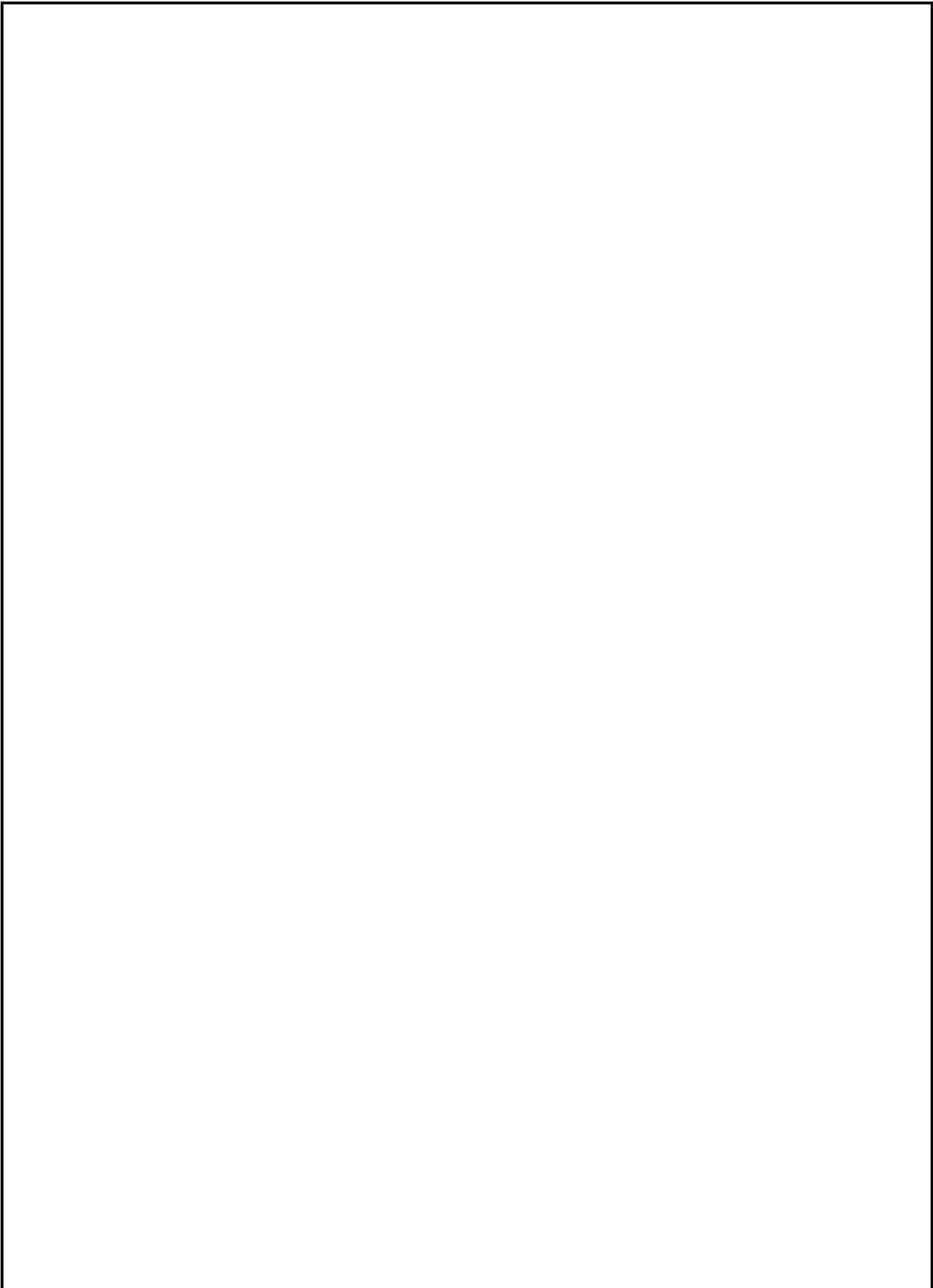
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Abbreviations

ABRI	Agricultural and Biological Research Institute
ACCA	Association of Chartered Certified Accountants
ASB	Accounting Standards Board
ASC	Accounting Standards Committee
ATB	Area Tourist Board
C&AG	Comptroller and Auditor General
CB	Cultural Body
CFER	Consolidated Fund Extra Receipts
CLG	Company Limited by Guarantee
DRA	Departmental Resource Account
EDB	Economic Development Body
EFL	External Financing Limit
EYF	End-Year Flexibility
FB	Funding Body
FRAB	Financial Reporting Advisory Board
FRS	Financial Reporting Standard
FRS	Fisheries Research Services
GGE	General Government Expenditure
GIA	Grant-in-aid
HC	House of Commons
HIE	Highlands and Islands Enterprise
LEC	Local Enterprise Company
MISR	Macaulay Institute for Soil Research
NAO	National Audit Office
NDPB	Non-Departmental Public Body
NGS	National Galleries of Scotland
NTDC	New Town Development Corporation
PFI	Private Finance Initiative
RAB	Resource Accounting and Budgeting
RoS	Registers of Scotland
RPB	River Purification Board
SAAS	Student Awards Agency for Scotland
SASA	Scottish Agricultural Science Agency
SCET	Scottish Council for Educational Technology
SCS	Scottish Court Service
SCOTVEC	Scottish Vocational Education Council
SDRB	Service Delivery and Regulatory Body
SE	Scottish Enterprise
SEPA	Scottish Environment Protection Agency
SHERT	Scottish Hospital Endowments Research Trust

Abbreviations (continued)

SOFA	Statement of Financial Activities
SOPA	Scottish Office Pensions Agency
SORP	Statement of Recommended Practice
SPS	Scottish Prison Service
SQA	Scottish Qualifications Authority
SRO	Scottish Record Office
SSAP	Statement of Standard Accounting Practice
STB	Scottish Tourist Board
TEC	Training and Enterprise Council
UC	Unprinted Command Papers
UP	Unprinted Papers
VFM	Value for money

Executive summary

This research report provides the findings from the Aberdeen project, which formed part of the ACCA Research Programme on Executive Agencies in UK central government. This project sought to place those Executive Agencies and Executive Non-Departmental Public Bodies (NDPBs), which are funded out of the Scotland public expenditure programme (Scotland Programme), within their distinctive environment of territorial management. The focus is upon financial reporting, auditing and financial control mechanisms, rather than on performance measurement or reporting.

The study period runs from 1990/91 to 1997/98, covering the first year that there was an Executive Agency in Scotland and extending until the financial year that ended 15 months before Scottish devolution took effect on 1 July 1999. Executive NDPBs have a much longer history; they are a residual category, defined in a negative way, straddling the public/private boundary and taking a variety of legal forms on each side of that boundary.

The project consisted of three components: mapping the Executive Agencies; mapping the Executive NDPBs; and then comparing and contrasting the two as they operate within the context of the Scotland Programme. Almost all such bodies are funded from the Scotland Programme and those which are significant in expenditure terms are funded from within the formula-controlled Scottish block. This link to territorial public expenditure aggregates necessarily constrains their financial autonomy. A corollary, however, is that Cabinet Office and Treasury control impacts less directly on Scottish bodies than would be the case for their English counterparts.

Quasi-government will not now go away. The financial reporting documents examined in this study constitute one of the principal vehicles of public accountability. As academic accountants, the researchers view this focus as an antidote to the excessive preoccupation with the, albeit important, topics of appointments and patronage. Much of the literature about Executive NDPBs has a strong rhetorical element, whether the motive is to praise quangos or condemn them. The concerns of this study are narrower and more focused.

Clarity about organisational design is not a characteristic feature of British government, an experience shared at the Scottish level. A striking result regarding Executive NDPBs is how the landscape was transformed within the study period by a surprising level of turnover, as evidenced by the number of births, deaths and mutations. A consequence of the system of territorial management is that there are a considerable number of Scottish bodies paralleling much larger English ones, as a reflection of Scotland's much smaller population.

Executive summary (continued)

The overall assessment is that the programme for establishing Executive Agencies was implemented quite smoothly in Scotland, being the rolling out of high-profile Cabinet Office machinery of government reform.

In contrast, the situation with Executive NDPBs is untidy and less creditable. The central co-ordination of the Next Steps programme by the Cabinet Office has never been matched for Executive NDPBs, which have evolved over a much longer period. The historical effects concerning Executive NDPBs are a UK-wide phenomenon, not just a Scottish one. The impression derived from this research is of untidiness and a certain disorder, rather than of any endemic structural problem. This lack of tidiness reflects the number of Executive NDPBs and their diversity, in terms of size, history, function and capacity.

The adoption of private sector forms of financial reporting, in advance of the Treasury's Resource Accounting and Budgeting (RAB) project for central government departments, went smoothly, though the substance was sometimes more variable than the form. Timeliness (as measured by the audit lag) was generally satisfactory. The quality of accounts (as measured by the absence of qualified opinions) was high, though this finding has to be interpreted in the light of two factors: some Accounts Directions authorised departures from UK GAAP, and the auditors of some Executive NDPBs set up as companies limited by guarantee (CLGs) failed to qualify when accounting policies clearly breached UK GAAP.

Nevertheless, accounting developments in Executive Agencies and Executive NDPBs undoubtedly eased the path for central government to switch to accruals. These precursors made the transition seem less strange and problematic than it would otherwise have done.

The project has generated a number of relatively modest but cumulatively important proposals. Five of the most important can be briefly summarised. First, there is an overwhelming need to revisit and rationalise the auditing arrangements for Executive NDPBs. These arrangements have been chaotic and almost unintelligible to the outside observer. They have also contributed to a mystifying variety of publication arrangements, making the availability of accounting information problematic for some bodies, despite their governmental status.

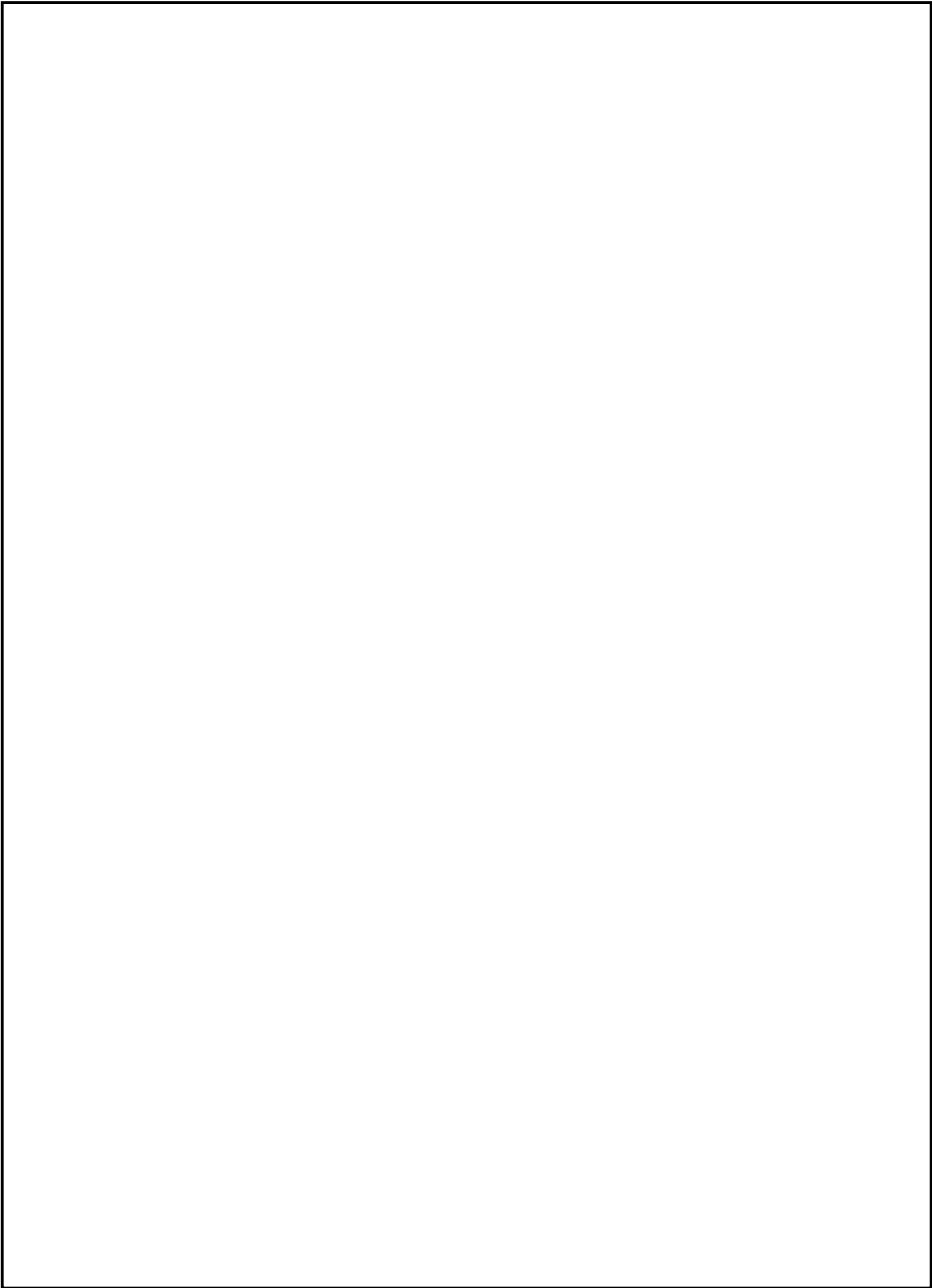
Second, there should be a complete overhaul of the Accounts Direction system, as it is vulnerable to abuse. There is simply not enough public attention paid to the reports and accounts of Executive Agencies and Executive NDPBs to counter the temptation to evade 'onerous' requirements. Moreover, some Accounts Directions are frequently revised while

others remain unchanged even when circumstances indicate that updating is necessary. Some are published with the annual accounts, others are not. The way ahead should be for Accounts Directions to operate on the exceptions principle: all Executive Agencies and Executive NDPBs should follow UK GAAP, as modified by the Resource Accounting Manual, except for explicitly authorised and disclosed departures. This would diminish the Treasury's workload associated with routine updating and harmonisation, allowing more time to be spent on monitoring the timeliness and quality of financial reporting.

Third, aspects of the financial control system for quasi-government bodies, such as Executive Agencies and Executive NDPBs, are poorly documented, at least when 'looking in' from the perspective of academic researchers. It is more difficult to assess how well the systems of financial control are understood within government, though the limited evidence available from the fieldwork suggests that there are gaps in knowledge and misunderstandings. Some initiatives have originally been well documented, though there is often a failure to keep material up to date. The dissemination of well-drafted and up-to-date documentation is particularly important in the light of the isolated existence led by the finance staff of quasi-government bodies and the encouraging practice of recruiting financial skills from outside government.

Fourth, there are strong arguments for Executive Agencies and Executive NDPBs being self-accounting whenever possible. This status should not be granted to organisations below the threshold size for running a viable finance function, however, unless there is to be a contracting out of that function to a suitable service provider. If meeting exemplary standards is beyond the capacity of a public body, or involves a cost that is unreasonable in relation to total expenditure, the body itself should be contractorised or merged, or its tasks reallocated. The practical effect would be that smaller Executive NDPBs, whose functions made that organisational status appropriate, would be more likely to be financed directly on the Vote of a government department.

Fifth, timely publication of annual reports and accounts is essential, not least to avoid the undesirable practice of publishing unaudited financial statements. Both audit and reporting lags should be kept to the minimum practical length, and reporting documents should always carry the date of publication so that reporting lags can be reliably measured. The accessibility of financial information needs to be improved. Researchers are a small but potentially significant group of 'intermediate' users who would find it much easier to retrieve documents for previous years if these were published in properly numbered series and reliably archived.



1. Introduction

This research report combines a study of technical issues relating to accounting change in central government with an exploration of the topology of government in Scotland on the eve of devolution. The principal objective was to show just how important context can be for the evolution of accounting and financial control in public organisations. This Aberdeen project therefore sought to place those Executive Agencies and Executive Non-Departmental Public Bodies (NDPBs) which are funded out of the Scotland public expenditure programme into their distinctive environment of territorial management.¹ The post-1988 changes in the machinery of government which established Executive Agencies was a UK-wide initiative whose implications have been studied by two other ACCA-funded research projects: the Cardiff project emphasised financial reporting change across UK Executive Agencies,² while the Belfast project concentrated on performance reporting across UK Executive Agencies.³ Once a territorial perspective was adopted, it became clear that Executive Agencies could best be studied in terms of their similarities to, and differences from, another group of public bodies that, despite much heterogeneity, had been officially classified as Executive NDPBs.⁴

This research was conducted against the background of important developments in UK government accounting and potentially far-reaching constitutional change. In 1993 the Treasury announced the government's intention to convert central government accounting and budgeting from cash to resource (i.e. accruals). Questions therefore arose about how Executive Agencies, themselves representing a large and growing part of central government, fitted into the Resource Accounting and Budgeting (RAB) project. It seemed likely that the spread of accruals accounting through the Next Steps programme should be seen as an important precursor of RAB, perhaps easing the later conversion of 'parent' departments.

If devolution were to proceed, this report would provide an understanding of how the present system functioned, as a guide for reconfiguration. Earlier work for the Scottish Affairs Committee of the House of Commons had revealed that many aspects of the existing machinery of government were little understood and poorly documented. Heald (1993; 1994a; 1995) developed a provisional categorisation of how various government and quasi-government bodies, collectively labelled 'the Scotland Programme family of organisations', fitted into the Scotland public expenditure programme (Heald and Geaghan, 1995). This scheme depended on legal status, accounting basis, funding channels and the nature of central government control. Not only was the Next Steps programme carving Executive Agencies out of the component departments of the Scottish Office, but there was heated political controversy about what are loosely called 'quangos'. Even without proper maps of how the multitude of bodies fitted together, the specific territorial context of unified control over the Scotland public expenditure programme was discerned to be crucial.

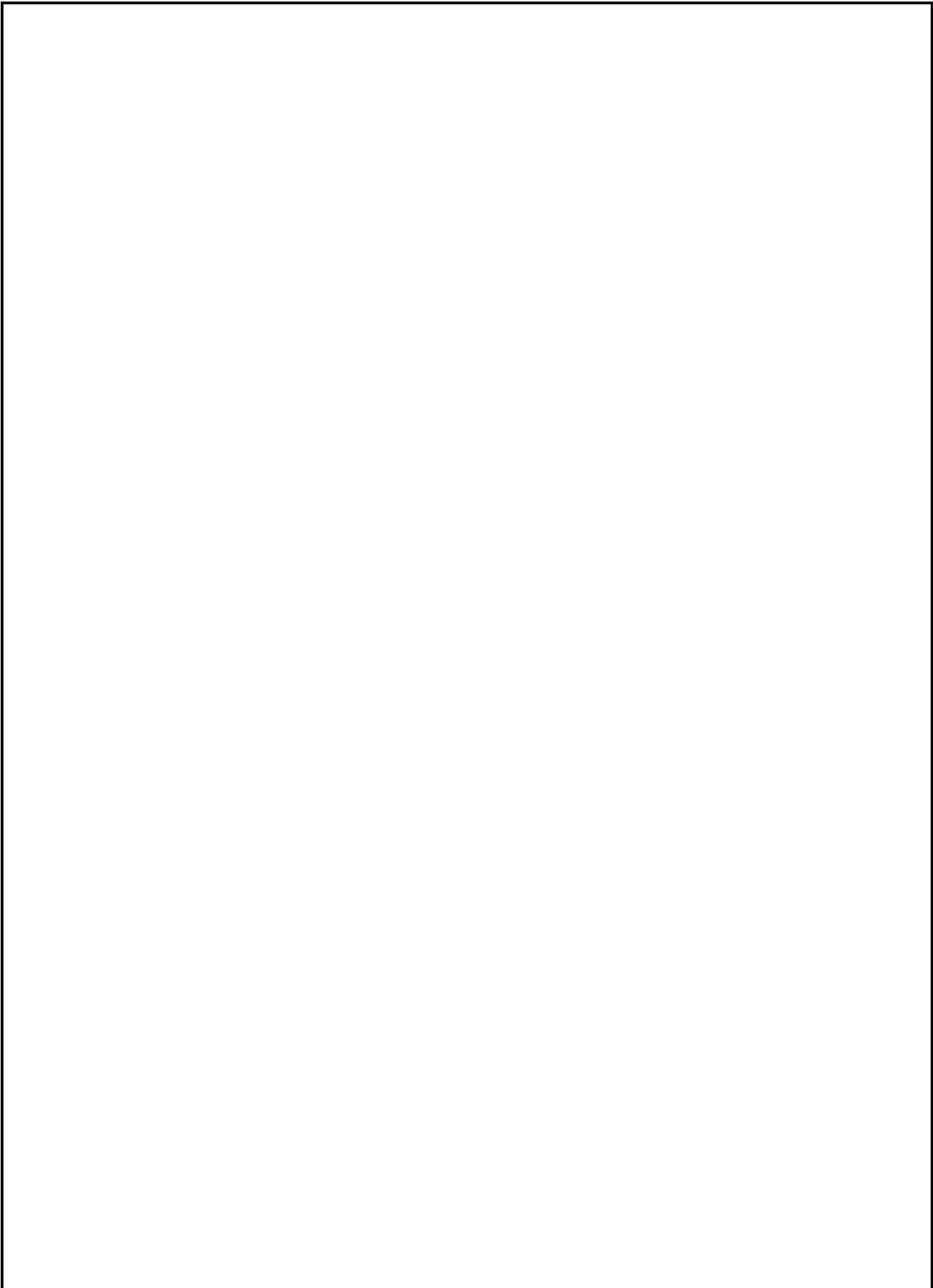
This research report is primarily concerned with financial reporting, auditing and financial control mechanisms, rather than with performance measurement or reporting. The discussion is sequenced on a topic-by-topic basis. As everything is interconnected, however, it is sometimes difficult to discuss particular aspects in isolation from others. Full consideration of all the interconnections is given in chapter 12, which draws together the principal research findings. Chapters 2 and 3 explain the research design and consider which factors differentiate the two populations of Executive Agencies and Executive NDPBs. Chapters 4 and 5 clarify the public expenditure treatment of these bodies and consider the implications of being fed by the Scotland public expenditure programme. It is then possible in chapters 6 and 7, respectively, to examine the characteristics of the Executive Agencies and Executive NDPBs included within the study. An obvious contrast is the relative homogeneity of the Executive Agencies compared with the remarkable diversity of the Executive NDPBs.

Attention then turns to how the mechanisms of financial control impinge upon these bodies (chapter 8), with the impacts greatly conditioned by public expenditure management considerations. While chapter 9 reveals uniformity in the auditing arrangements for Executive Agencies, those for Executive NDPBs are both numerous and highly varied, the product of accident and history rather than of systematic development. Chapter 10, on financial reporting, concentrates on three aspects: audit lags; the style of financial reporting documents, notably whether there is a single document combining both annual report and annual accounts; and the incidence of audit qualifications. A number of technical issues regarding accounting policies and financial reporting are considered in chapter 11.

Chapter 12 provides an overview of what has been learned from this study. For the sake of clarity, these conclusions are divided into those on territorial management; on machinery of government; on auditing arrangements; on accounting reform; and on financial control.

Two further introductory points will be helpful. First, evaluations of performance achievements have to be pursued at the level of each organisation, using the best available information on comparators, and they need to be both organisation-specific and embedded in functional context. Care should be exercised when generalising about Executive Agencies, which range from those acting as a conduit for money transfers (Student Awards Agency for Scotland (SAAS)), through scientific research (Scottish Agricultural Science Agency (SASA)), to the prison service (Scottish Prison Service (SPS)). This point holds even more emphatically when the canvas extends to Executive NDPBs, a remarkably heterogeneous group.

Second, the final year of this study was 1997/98, a financial year that ended 15 months before Scottish devolution took effect on 1 July 1999. It is therefore appropriate to stick with pre-devolution terminology (for example, Scottish Office not Scottish Executive). In order to avoid the use of complex past tenses, much of the detailed exposition disregards the July 1999 replacement of the Scottish Office system by devolved government.



2. Research design

The project was substantially redesigned after it had begun. The initial plan was to study Executive Agencies in their specific territorial context by matching those agencies with other organisations fed from the Scotland Programme. The intended comparators had been chosen explicitly to range widely across organisational type: for example, public corporations, nationalised industries and organisations classified as belonging to the private sector.

However, the intended matching was infeasible for two reasons:

- (i) there was insufficient public information about other members of the Scotland family for the Scotland Programme Executive Agencies to be matched, without first mounting a study of the whole population

and

- (ii) exploratory work established that there were too many different dimensions on which matching might be done, with the result that any pair which were well matched on one criterion might be badly matched on others.

There were two reasons for narrowing the canvas to those members of the Scotland family with the status of Executive Agencies or Executive NDPBs. First, a recognition of the complexity of some of the issues was an argument for caution about scope. Second, and more telling, there were few examples of nationalised industries, public corporations, or bodies classified as belonging to the private sector fed from the Scotland Programme, meaning that it would be difficult to isolate general issues.

Furthermore, the researchers came to appreciate the implications of the contrasting ways in which Executive Agencies and Executive NDPBs have been defined. The former have been positively defined, in terms of both shared characteristics and common origin in a programme of administrative reform. In contrast, the latter have been negatively defined, in terms of what they are not (Pliatzky, 1992). Clarity about organisational design is not a characteristic of British government. Such imprecision is often a result of how the machinery of government in the United Kingdom is largely driven by Executive discretion and administrative convenience, with little grounding in public law.

The coverage of the project was therefore redetermined as:

- (i) all Executive Agencies fed from the Scotland Programme, of which there were ten as at April 1998

and

- (ii) all organisations defined as Executive NDPBs, at the annual census date of 1 April, in any issue of *Public Bodies* (a Cabinet Office annual publication) between 1990 and 1998.

The study period for Executive NDPBs is arbitrary, except in that it matches the years of the Executive Agencies programme. Despite this restriction of the study period, collection of the necessary documents was a huge task, absorbing much more research time than had been anticipated.

The project therefore developed three components: mapping the Executive Agencies; mapping the Executive NDPBs; and comparing and contrasting the two as they operate within the context of the Scotland Programme.

3. Differentiating the two study populations

Before dealing with the institutional and accounting particularities of the organisations included in the study, it will be helpful to apply a broad brush in differentiating between the two populations of Executive Agencies and Executive NDPBs. This initial exposition concentrates on the major contours, without mapping all the details. The following generalisations can be drawn with confidence because the detailed topography has been carefully mapped. Although some exceptions can usually be cited, it is nevertheless relatively easy to characterise the *formal* differences between Executive Agencies and Executive NDPBs.⁵

First, Executive Agencies are a facet of the internal management of departments, always changeable given political will and agreement between the parent department and the central departments (i.e. Cabinet Office and Treasury). Executive Agencies have ‘exited’ from (core) departments in the period since the 1988 launch of Next Steps (Jenkins, Caines and Jackson, 1988). The notion of exit is somewhat problematic because they are still part of the departmental fabric; for example, they can be abolished, merged or reconfigured at ministerial discretion. In contrast, the existence and role of Executive NDPBs are usually underpinned by primary legislation, some of which dates back many years, with secondary legislation often used to bring particular sections of that primary legislation into force. In consequence, new primary legislation would usually be required to abolish or merge Executive NDPBs. There is some doubt about how far any government could starve a particular Executive NDPB of resources, without repealing the primary legislation.

Unlike Executive Agencies, Executive NDPBs are corporate bodies that exhibit marked variations in legal status. Table 1 shows seven different routes through which an Executive NDPB may have become legally incorporated. Statutory bodies can be established by specific legislation, by Royal Charter or by Royal Warrant.⁶ Other routes for becoming a body corporate are as a company limited by guarantee (CLG), as a body established under the Industrial and Provident Societies Acts, and as a trust under private law. Some of this variation simply reflects historical circumstance. One of the motivations for adopting the legal form of CLG, however, has been the convenience of its not requiring primary legislation. Another may have been to facilitate the acquisition of charitable status. There are cases where certain activities of the Executive NDPB have been separated off into a CLG, with this objective in mind. One example is the sports centres of the Scottish Sports Council, which were formed into the Scottish Sports Council – Trust Company. Annex 3.1 at the end of this chapter provides further discussion on charitable status.

Differentiating the two study populations (continued)

Second, while the employees of Executive Agencies remain civil servants, the employees of Executive NDPBs are not civil servants, except for two notable exceptions (the Advisory, Conciliation and Arbitration Service, and the Health and Safety Executive), neither of which is covered by this study.

Third, whereas all Executive Agencies are audited by the Comptroller and Auditor General (C&AG),⁷ the arrangements for Executive NDPBs are more mixed.

'Under an Agreement between the Comptroller and Auditor General (C&AG) and Her Majesty's Treasury, the C&AG should be either the auditor of, or have inspection rights to, all executive NDPBs ... [Where the C&AG] has not been appointed as external auditor but nevertheless has access to the body's books and records ... commercial auditors are usually employed as the external auditors.'
Cabinet Office (1998, inside back cover)

Both arrangements are found for Scottish Office-sponsored Executive NDPBs but the most significant ones in terms of expenditure are audited by the National Audit Office (NAO) (Cabinet Office, 1998, pp. 122–139).⁸

Fourth, the assets of Executive NDPBs are vested in their boards, while those of Executive Agencies remain in the ownership of the Secretary of State.

Fifth, anticipating the introduction of RAB, the official dividing line between the two study populations has been acquiring greater salience. Executive Agencies, other than those which are also trading funds, have been defined as within the boundary of Departmental Resource Accounts (DRAs), while most Executive NDPBs have been defined as outside this departmental boundary.

Taken together, such differences make those involved – whether working in the central departments, Scottish Office, Executive Agencies or Executive NDPBs – likely to contend that Executive NDPBs operate at 'greater arm's length' from the core department than do Executive Agencies.

In addition to these formal differences, there are some important *informal* differences, details that tend not to be highlighted in government publications. Historical circumstances play a considerable role in differentiating Executive Agencies from Executive NDPBs. On the one hand, the Next Steps programme was centrally co-ordinated by the Cabinet Office, and rolled out by departments within quite tightly defined parameters, with many established in the early 1990s. On the other hand, the category of Executive NDPBs is best regarded as a residual category, to which

organisations are classified because of what they are not. The term 'Executive Non-Departmental Public Body' came into official use as a result of the census ordered by the incoming Conservative government in 1979 (Pliatzky, 1980). This high-profile review followed an outbreak of strident rhetoric about the need to cull 'quangos', yet produced few significant abolitions or mergers (Hood, 1981). This pattern was repeated in the late 1990s, when the Labour government in office from 1997 did not implement the long-threatened 'bonfire of the quangos'. Government publications have traditionally avoided use of the term 'quangos', often referring instead to Executive NDPBs, a much narrower category of body than is usually intended by the use of 'quango' in public debate.

Although there now appears to be more willingness to use this term in official publications, the term is a minefield because of the imprecision involved in its use. The mapping exercise conducted as part of this research project was formidably complicated. The main features of Executive Agencies can be quickly grasped; however, Executive NDPBs throw up many surprises, reflecting the fact that they are a very mixed bag of organisations. In order to define the study population of Executive NDPBs within the Scotland Programme, three steps have to be taken:

- (i) determining whether a body is an NDPB
- (ii) determining whether this is an Executive NDPB
- and
- (iii) determining whether this Executive NDPB is fed by the Scotland Programme.

Each of the above tasks is undertaken by the Cabinet Office, in its annual update of *Public Bodies*. Having defined the study population, it will be convenient for later analysis if a further step is taken:

- (iv) determining whether this Executive NDPB, fed by the Scotland Programme, derives its funding from the Scottish block (this has to be established on a case-by-case basis, though most are easily settled).

ANNEX 3.1: CHARITABLE STATUS

The issue of charitable status is extraordinarily complicated, though the following summary suffices in the present context. In Scotland, there is no formal registration system for charities that equates to that in England and Wales. Not only is the legislation

Differentiating the two study populations (continued)

different but the Charity Commission for England and Wales (a non-ministerial government department) regulates all charities and deals with their registration.⁹ The task of recognising a body as charitable in Scotland rests with the Inland Revenue.

Recognition depends on whether the entity has been set up for:

- the relief of poverty
 - the advancement of education
 - the advancement of religion
- or
- other purposes beneficial to the community.

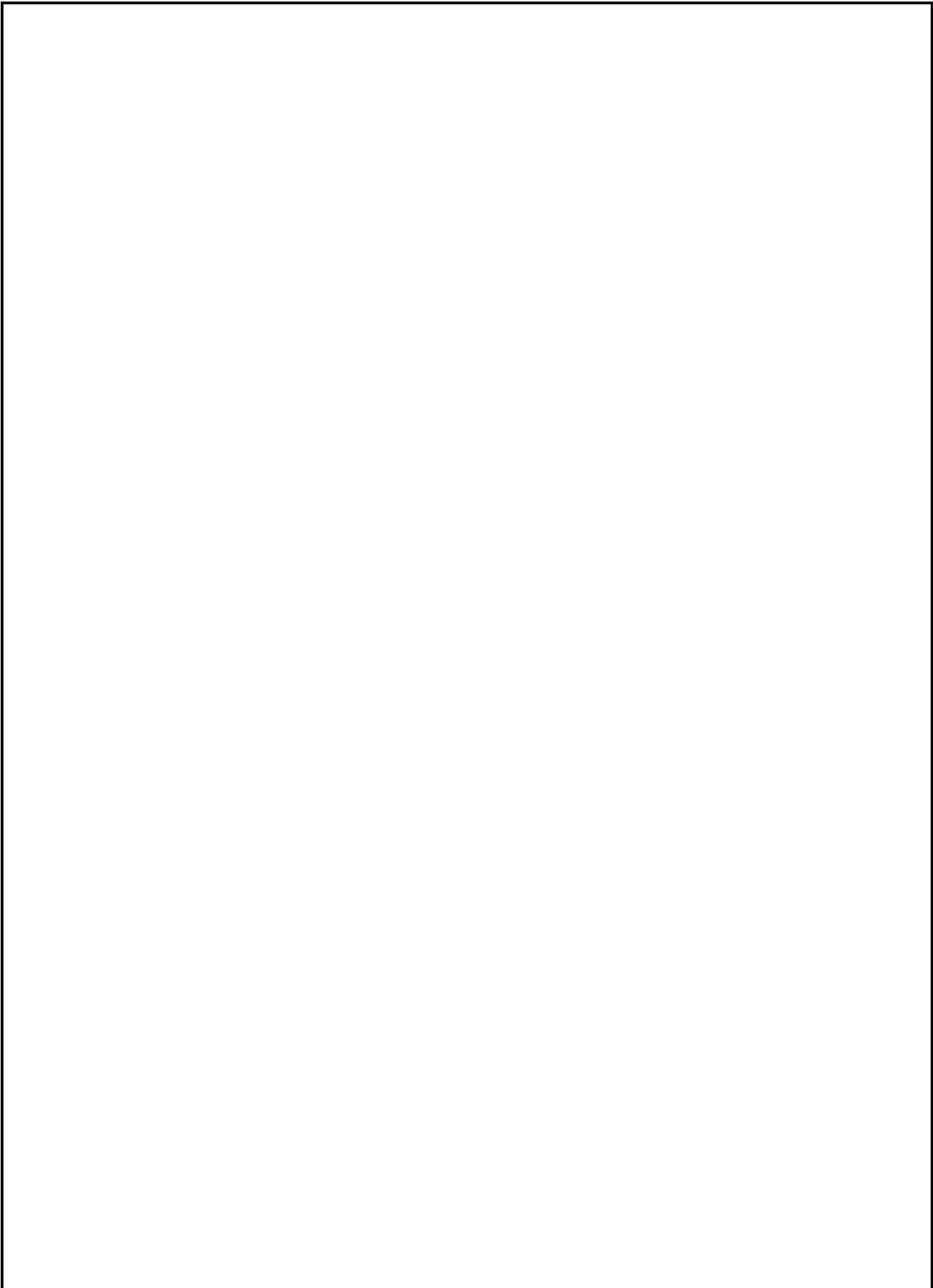
Taken together, these are known as the Macnaghten doctrine (Tolley, 2000) which dates from 1891. They provide the starting point, though each case has to be considered carefully on its own merits.

The correct form of wording in a body's annual report and accounts is prescribed in the Scottish Charity Regulations. In the case of the Scottish Hospital Endowments Research Trust (SHERT), this is: 'the Trust is recognised in Scotland as a Scottish Charity Number SC 014959'. This is provided for in section 1 of the Law Reform (Miscellaneous Provisions) (Scotland) Act 1990. This wording applies irrespective of whether the organisation has been constituted as a trust, CLG, corporate body or by any other method. For example, the original approval of SHERT for charitable purposes was granted by the Inland Revenue in Scotland based on the objects of the Trust, and was unconnected with its having been created by statute. If the Inland Revenue is satisfied with the aims and objectives and with the constitution of the body, it will allocate a Scottish Charity Number, which should be shown on the body's headed notepaper and referenced in its accounts. The terminology 'registered charity' should be used only by a body registered with the Charity Commission for England and Wales. However, examples have been found of Scottish Charity numbers not being cited in annual reports and of mistaken descriptions that use the English terminology.

Several NDPBs in this study are recognised as charities by the Inland Revenue: these are usually in the field, loosely defined, of education. The principal benefits are the ability to recover tax on deeds of covenant and other gifts, to receive bank interest gross, and to claim the statutory rebate of 50% off Non-Domestic Rates.¹⁰ When an Executive NDPB is

recognised as a charity, there are implications for its financial reporting, notably conformity with Statement of Recommended Practice (SORP) 2 (Charity Accounting Review Committee, 1995). This topic will be discussed in chapter 11.

There is a further complication when Executive NDPBs set up by statute or Royal Charter have charitable status. They would be subject to double accounting and auditing in those cases where the C&AG is statutorily appointed as the auditor, since the charities legislation requires that auditors be qualified under the Companies Acts, which the C&AG is not. In order to circumvent this problem, a 'Scottish charitable corporation' has been defined as a body corporate established by statute or Royal Charter for which there is a requirement for the accounts to be certified by the C&AG. Such a body is exempted from the relevant provisions of the Law Reform (Miscellaneous Provisions) (Scotland) Act 1990.¹¹



4. The public expenditure treatment of Executive Agencies and Executive NDPBs

Determining how organisations fit together in governmental systems is not just an academic pastime – a search for tidiness where none exists. Leaving aside issues relating to the quasi-public sector, the types of organisation relevant to the present discussion are:

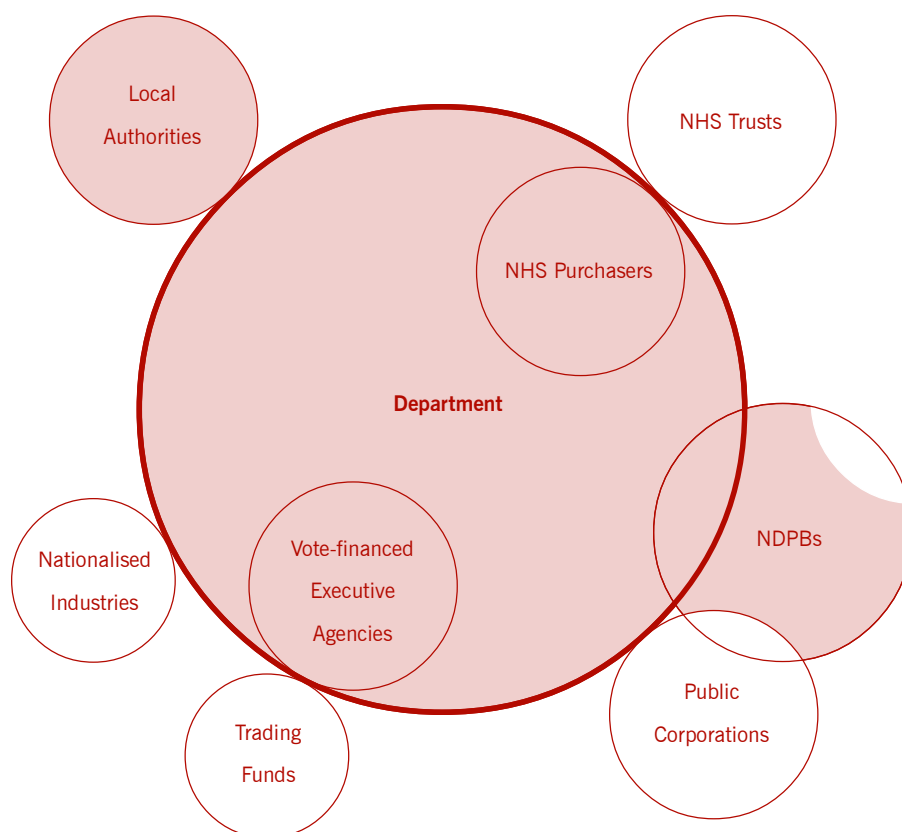
- core (i.e. parent) departments
 - on-Vote Executive Agencies
 - Executive Agencies that are trading funds
 - Executive NDPBs
- and
- public corporations.

Figure 1 shows how these five types of organisation fit into the DRAs that will replace appropriation accounts. Everything within the circle outlined in bold constitutes the DRA, while the shaded areas represent the national accounts aggregate of general government.¹²

The original intention in the RAB Green Paper (Treasury, 1994) was that *all* Executive Agencies would be within the domain of consolidation and *all* NDPBs would be outside. In the revised 1995 White Paper scheme (Treasury, 1995), shown here as figure 1, Executive Agencies that are also trading funds are outside the consolidation, whereas some Executive NDPBs will be inside. The decision to draw the departmental boundary in this way, for the purposes of DRAs, confers long-term importance on the decision to classify a body as an On-Vote Executive Agency (definitely inside), an Executive Agency with trading fund status (definitely outside), or an Executive NDPB (presumptively outside, unless there are 'good control reasons'). The present status of particular bodies can reflect accidents of history or timing: Historic Scotland (which manages the built heritage) is an Executive Agency, whereas Scottish Natural Heritage (which manages the natural heritage) is an Executive NDPB. This point is reinforced by the fact that English Heritage and English Nature are both Executive NDPBs sponsored by, respectively, the Department for Culture, Media and Sport and the Department of the Environment,

The public expenditure treatment (continued)

Figure 1: Resource Accounting's departmental boundary



Source: Modified from Diagram 3 of Treasury (1995). The shaded area represents general government, with the unshaded part of the NDPB circle representing those NDPBs, constituted as companies limited by guarantee, which are in the private sector.

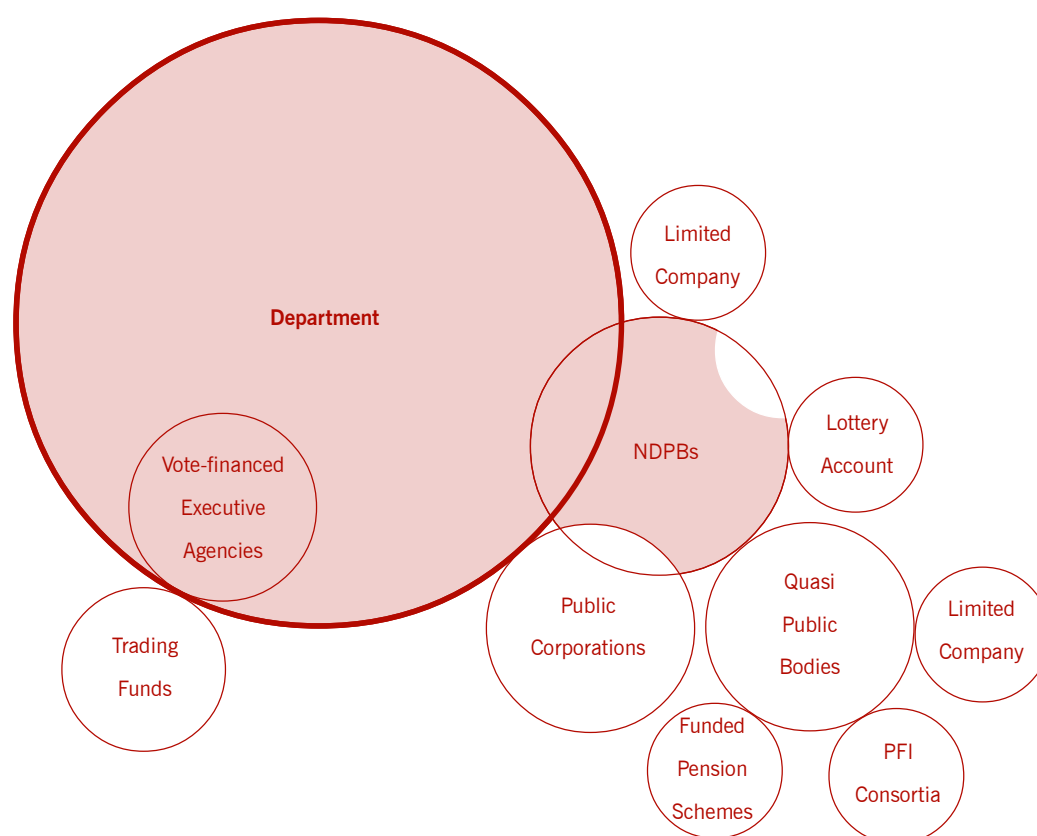
Transport and the Regions (Cabinet Office, 1998). Such inconsistencies may well persist rather than be eliminated: finding legislative time in the UK Parliament is always difficult, and the presentation of new legislation may open up issues (e.g. about resourcing) that governments would prefer to avoid.¹³

Such distinctions may begin to matter when 'shadow' DRAs are published from 1999/2000 and then replace appropriation accounts in 2001/02. The Treasury initially rejected more extensive consolidation (Heald and Georgiou, 1995), whether of the 65 DRAs (i.e. accepting the existing boundaries of each) or of whole-of-government accounts on the New Zealand model (Pallot and Ball, 1997). This position has now changed, with the result that, in due course, there will be a whole-of-central-government consolidation (Treasury, 1998b).¹⁴

The public expenditure treatment (continued)

One concern raised by commentators has been that departments might locate significant activities outside departmental boundaries, in a way that ‘empties’ the DRA. Linguistic confusion about ‘agencies’ and ‘quangos’ would certainly provide opportunities for obfuscation. Not only do commentators misuse the term ‘quango’ but government itself is careless about terminology. The name Scottish Environment Protection Agency (SEPA) for an Executive NDPB is an excellent example, confusing even the authors of the Scottish Office’s own annual report (Scottish Office, 1996, p. 5), which classified SEPA as an Executive Agency. There are plenty of genuine complications. Some Executive NDPBs that are outside the departmental boundary are classified as public corporations. Moreover, those Executive NDPBs which are constituted as private law trusts or as CLGs fall outside figure 1’s shaded area, which represents general government (see the unshaded area at the top of the NDPB circle).

Figure 2: Resource Accounting Executive Agencies and Executive NDPBs



Source: Developed as an extract from Figure 1. The shaded area represents general government, with the unshaded part of the NDPB circle representing those NDPBs, constituted as companies limited by guarantee, which are in the private sector.

Figure 2 extends those parts of figure 1 which relate to the two study populations, demonstrating an even more complex picture with regard to Executive NDPBs.¹⁵ First, some Executive NDPBs have established limited company subsidiaries that are part of the private sector. Second, some Executive NDPBs orchestrate, via funding or contractual mechanisms, considerable numbers of quasi-public bodies, typically established with private sector status. Third, outside the departmental boundary, contracts have been signed between bodies dependent upon public funds and Private Finance Initiative (PFI) consortia. Fourth, there are several funded pension schemes structured in terms of a percentage of final salary, raising the possibility that some might develop actuarial deficits that would have to be made good by central government or future service beneficiaries.

5. The implications of being fed by the Scotland Programme

The crucial point is that all the organisations under study are dependent upon public funds.¹⁶ As a direct consequence, the financial framework within which they must operate is markedly influenced by the way in which the Treasury conducts public expenditure management and control (Thain and Wright, 1995). Although this point applies to all Executive Agencies and Executive NDPBs, it is particularly relevant for those which derive their funding from one of the territorial programmes (i.e. Scotland, Wales and Northern Ireland).

The Survey¹⁷ deals distinctively with the three territorial departments (Heald, 1994b). The defining characteristics of this territorial system are as follows:

- (i) Changes to the level of expenditure on the territorial 'blocks' are controlled by a population-based formula, which is applied to changes in public expenditure in England on comparable programmes (i.e. on those services which fall within the territorial blocks, each of which has a different coverage). This mechanism – widely known as the Barnett formula – has allocated specified percentages of the change in English comparable expenditure to Scotland and Wales, and a specified percentage of the change in comparable expenditure in Great Britain to Northern Ireland (Heald, 1998; Heald and Geaughan, 1998).¹⁸
- (ii) The relevant Secretary of State possesses unqualified expenditure-switching discretion between expenditure lines within the block in relation to planned figures, though the normal processes of virement apply once Estimates have been presented. Within the constraints imposed by being a member of the UK Cabinet, implying collective responsibility for a shared programme, the Secretaries of State can adapt UK policies to their perception of differential circumstances.

The above structure emphasises the importance of centralised financial control within each territorial department, since the respective Secretaries of State are responsible to the Treasury for delivering the agreed total expenditure. A failure to achieve this on the part of a territorial department would encourage the Treasury to challenge the block system, the existence of which is highly valued by the territorial departments. There is clear evidence that per capita public expenditure is higher in Scotland, Wales and Northern Ireland than in England (Treasury, 1999b, pp. 94–105). Moreover, the territorial departments are highly sensitive to the fact that a population-based mechanism

for allocating incremental expenditure means that, given higher per capita expenditure bases, their percentage increases will always be lower than those in England. This requirement for tight aggregate control, coupled with expenditure-switching discretion over a broad range of functional expenditure, necessarily entails a high degree of centralised control internal to each territorial department.

6. Executive Agencies within the Scotland Programme

The managerial structure internal to the command of the Secretary of State for Scotland has been extremely complex. There were ten Executive Agencies within the Scotland Programme, established over a period of years as the Scottish Office, working in conjunction with the Cabinet Office, rolled out its Next Steps programme. Registers of Scotland (RoS) was the first (6 April 1990) and Fisheries Research Services (FRS) was the tenth (1 April 1997). It is essential to locate these ten Executive Agencies within the pre-devolution structure of Scottish government.¹⁹

There is terminological confusion in that the Scottish Office is regarded as a government department, while its internal subdivisions are described as departments. After internal restructuring in 1995, the Scottish Office consisted of five departments: the Scottish Office Agriculture, Environment and Fisheries Department (which has three Executive Agencies); the Scottish Office Development Department (one); the Scottish Office Education and Industry Department (two); the Scottish Office Department of Health (none); and the Scottish Office Home Department (one). Accordingly, seven of the ten Executive Agencies in this study are part of the Scottish Office.

Expenditure within the control of the Secretary of State for Scotland – and identified as such in budgetary documents – ranges wider than the expenditure of the Scottish Office. Outside the Scottish Office, there are four organisations classified as government departments:

- (i) Registers of Scotland (RoS), which is an Executive Agency
 - (ii) Scottish Record Office (SRO), which is an Executive Agency
 - (iii) Scottish Courts Administration, most of which is now constituted as an Executive Agency (Scottish Court Service (SCS))
- and
- (iv) the General Register Office for Scotland.

Accordingly, three of the ten Executive Agencies in this study are outside the Scottish Office.

Executive Agencies within the Scotland Programme (continued)

Adopting the classification system of Cabinet Office (Office of Public Service) (1997),²⁰ two Executive Agencies are classified as research establishments (Fisheries Research Services and Scottish Agricultural Science Agency), one as having regulatory functions (Scottish Fisheries Protection Agency), and seven as delivering service to the public. There are no examples in the Scotland Programme of agencies classified as providing departmental services. Table 2 lists the ten Executive Agencies, all of which are classified as 'births', and shows both the basis of their funding and the mechanism through which they are financially controlled by their parent department. The years in which a particular Executive Agency existed are indicated by ticks to the left of its name.

Three conclusions can be drawn about the nature of the organisations in the Scotland Programme that have become Executive Agencies. First, the activities remain predominantly on-Vote: nine out of ten are financed in this way, with the exception (RoS) having acquired trading fund status on 1 April 1996.

Second, on any reasonable measure of political salience, all but SPS would obtain a low score: they are concentrated in relatively technical, low-key areas. Bodies with high political salience and/or large budgets are constituted as Executive NDPBs (e.g. Scottish Enterprise, Highlands and Islands Enterprise, Scottish Homes and the Scottish Higher Education Funding Council). In reality, there have been significant constraints on which activities in the Scotland Programme could be carried out by an agency. A Downing Street decision, applicable across the United Kingdom, determined that the sponsorship of the National Health Service would be kept directly under ministerial control. In terms of expenditure numbers, the scope for Executive Agencies was limited by the exclusion of the politically protected health programme (30.3% in 1997/98 estimated outturn), the extent to which the Scotland Programme is committed to support to local authorities (40.9%), and the size of NDPBs' contribution of the Control Total (11.4%).²¹ Indeed, the areas in which Executive Agencies have been created are often those most vulnerable to pressure for expenditure reductions. Even where this has not been the case, an important constraint on the form of 'agencification' arose from the UK decision not to opt for purchaser-provider separation in the politically sensitive area of prisons.

Third, in the case of the departments outside the Scottish Office, there would seem to have been some element of the 're-badging' of existing arrangements (i.e. changing nameplates) of the kind discussed by Talbot (1996). Nevertheless, the agencification process, which curiously established some departments as agencies of themselves, has brought them more clearly within the mainstream arrangements for performance monitoring.

7. The major groupings of Executive NDPBs

It quickly became apparent that the study population of Executive NDPBs could become unmanageable, not least because of its diversity. A provisional classification scheme was therefore developed, to illuminate similarities and differences without prejudging final answers to the research questions.

The Cabinet Office's annual census takes place at 1 April each year. Tables 3, 4 and 5 provide an overview of the 67 Executive NDPBs in Scotland which, in at least part of the study period of 1990 to 1998, have met the condition for inclusion: that they were classified as Executive NDPBs and fed by the Scotland Programme. Table 3 is arranged by life cycle, distinguishing survivor, repatriation, repatriation and death, birth, death, expatriation, reclassification in and out, and reclassification out. Census records are provided on the left of the table, with a tick indicating that the body appeared in that year's issue of *Public Bodies*.

Table 4 is arranged by category and provides detailed information about life cycle, legal status, funding, accounting basis in last relevant year, and auditing arrangements. In recognition of the link between life cycle and category, those within a particular category are then sequenced in the same life-cycle order as used in table 3. For ease of consultation, table 5 provides in alphabetical order the same material as table 4. A key to the abbreviations used is provided in table 6.

A feature that distinguishes Executive NDPBs from Executive Agencies is that the former usually have a statutory basis whereas the latter do not. Given the characteristic untidiness concerning Executive NDPBs, however, there are some exceptions; those without a statutory basis are relatively unimportant in terms of expenditure. When there is a statutory basis, the Secretary of State for Scotland would not be able to close down that body without securing new legislation. When there is no statutory basis, this would not be necessary and the Secretary of State could refashion it, in just the same way that Executive Agencies can be created and abolished.

Executive NDPBs without a statutory basis have often taken the legal form of CLG. Such bodies are outside the audit of the C&AG. A significant recent development is the way in which some UK departments have adopted this private legal form for statutory bodies of substantial policy and expenditure importance. Although the adoption of private legal forms has been part of the managerial reform agenda, there is also a possibility that this is in part motivated by a desire to locate new Executive NDPBs outside the audit of the

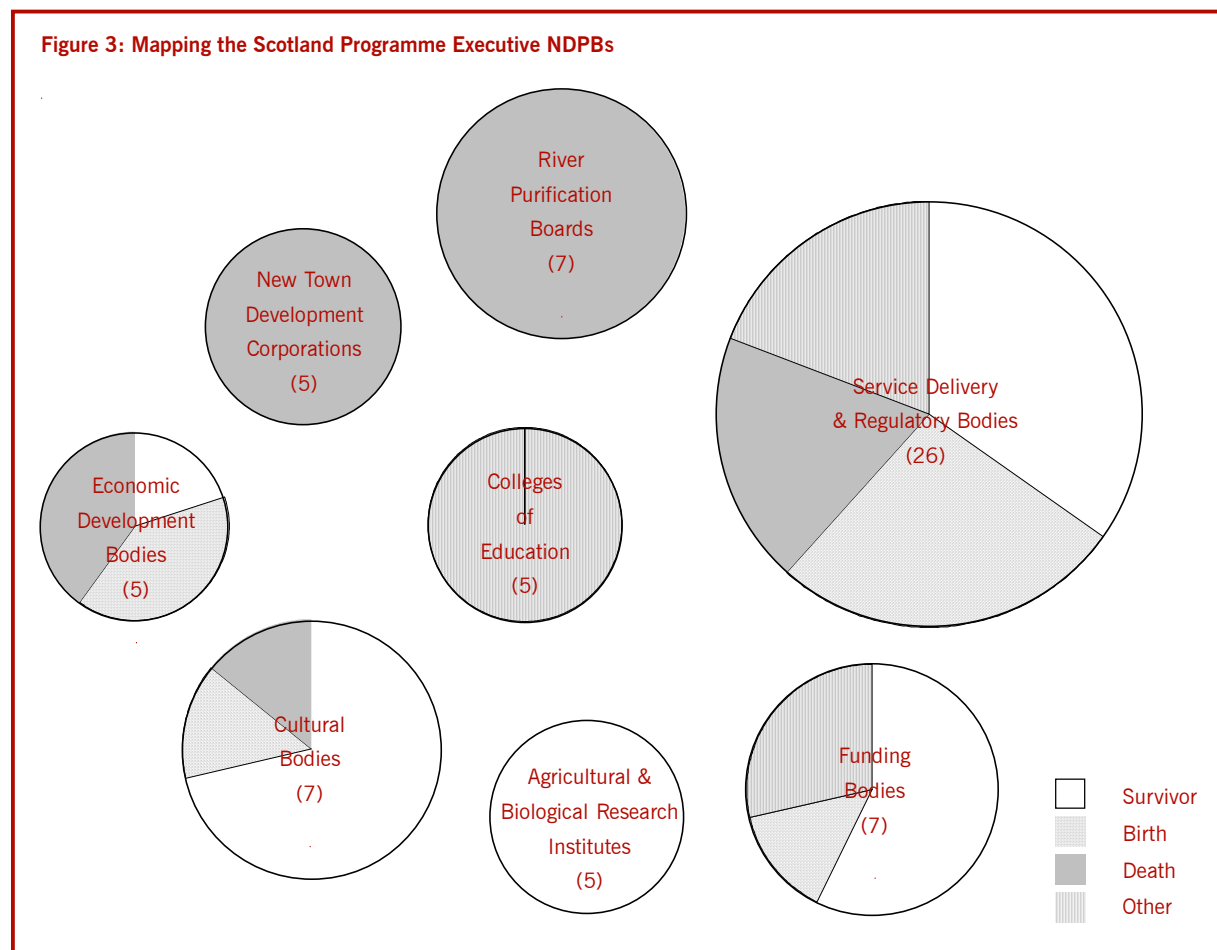
The major groupings of Executive NDPBs (continued)

C&AG. There are no examples of such use of CLGs within the Scotland Programme family, however: recently established major Executive NDPBs, such as the Scottish Environment Protection Agency and the Scottish Qualifications Authority (SQA), are statutory bodies.

The difficulty with summary tables is that they inevitably contain too many organisations and dimensions for easy digestion. Nonetheless, it is striking to see how the landscape has been transformed over time, which is at variance with the view that public organisations exhibit a degree of immortality, whether from political inertia or bureaucratic self-interest. Indeed, there has been a surprising turnover as evidenced by numerous births, deaths and mutations.

Figure 3 probes the diversity within Executive NDPBs and summarises their organisational histories over the study period. The Executive NDPBs within the study have been subdivided into eight groupings. This is not the only possible set of groupings but it will prove helpful. The area of each circle in figure 3 is set proportional to the total number of organisations in that grouping; this total number is indicated below the group

Figure 3: Mapping the Scotland Programme Executive NDPBs



name. (There is, of course, double counting when there have been significant restructurings within the study period.) Each organisation is then classified according to its life cycle throughout the study period. Only three of the eight life-cycle stages are graphically represented (survivor, birth and death), with the other five combined as 'other'. Even on this simplified basis, the differentiated shading denotes differing patterns of development across groupings.

The heterogeneity of Executive NDPBs means that all attempts to categorise them have limitations. Nevertheless, figure 3 focuses on certain differences and commonalities in the assortment of Executive NDPBs that have been funded from the Scotland Programme. The following discussion focuses first on two groupings that 'disappeared' during the study period: New Town Development Corporations (NTDCs) and River Purification Boards (RPBs). Attention then turns to five categories that still have 'live' members. Finally, consideration is given to those bodies declassified as Executive NDPBs, a category that includes one entire grouping, all of whose members were declassified (Colleges of Education).

7.1 A PROFILE OF DEATHS

The mortuary contains a variety of specimens, but two groupings are immediately obvious – *all* New Town Development Corporations (NTDCs) and *all* River Purification Boards (RPBs).

New Town Development Corporations

Five NTDCs played significant roles in the post-war urban planning of Scotland, both in terms of promoting industrial development and of securing improved housing and social conditions. Of the five, East Kilbride Development Corporation was the first to be established (1947) and Irvine was the last (1966). The other three were Glenrothes (1948), Cumbernauld (1956) and Livingston (1962). During the study period, all were wound up and formally dissolved. A combination of factors contributed to their deaths: task completion; the creation of a new wave of economic development bodies (Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE) and their networks of Local Enterprise Companies (LECs)); and a certain distaste on the part of Conservative ministers for 'traditional' public sector organisations (this was the period of extensive privatisations).

In both expenditure and policy terms, the NTDCs were significant bodies; at their peak they were landlords of large stocks of public housing and industrial estates. Classified in *Public Bodies* as Executive NDPBs, they were treated as public corporations in the

Survey. Anomalously, however, they were not scored on an External Financing Limit (EFL) basis, but on the 'subsidy and capital expenditure' basis, which – before the 1977 public expenditure redefinition – had been applied to all nationalised industries and public corporations. In the terminology of public expenditure White Papers published in the 1980s, they were 'List 3 public corporations' (Heald and Steel, 1984). Given their size in financial terms, this was somewhat surprising. It seems that the Treasury never relished the prospect of conflict with sponsoring departments that a reclassification might have brought, especially once the principle of wind-up had been enacted.²² In Scotland, the intention to wind up was enunciated in the Enterprise and New Towns (Scotland) Act 1990, under which the Secretary of State for Scotland could bring forward statutory instruments setting out timetables. The first such timetables, for East Kilbride and Glenrothes, were approved under the affirmative resolution procedure in February 1992. All five NTDCs had been wound up by 31 December 1996.

Notwithstanding their disappearance, NTDCs raise several interesting issues. Two are examined here, with others postponed until the analysis of financial reporting in chapter 10. First, as Executive NDPBs treated as public corporations, they would definitely have been outside RAB's departmental boundary; therefore, if they had continued to exist, they would have represented a significant block of off-balance sheet assets and liabilities. Second, there was a marked lack of transparency in the reports and accounts regarding the financial controls exercised by the Scottish Office Development Department over the NTDCs in the wind-up phase. For example, the Scottish Office established target levels of disposals for each NTDC, yet no specific targets are disclosed in the report and accounts. There is only a bland reference in East Kilbride's 1993/94 report and accounts.²³ This makes it difficult to track the extent to which funds generated by the wind-up of particular NTDCs were used to support other NTDCs or other parts of the Scotland Programme.

River Purification Boards

The seven RPBs occupied an anomalous position between central and local government. The Rivers (Prevention of Pollution) (Scotland) Act 1951 conferred upon the Secretary of State the power by statutory instrument to establish and reconfigure RPBs. In the recent past, their powers were derived from the Control of Pollution Act 1974. Their responsibilities included the achievement of local, national and international targets and legal requirements for water quality, and the issuing and monitoring of discharge consents (Scottish Office and Scottish River Purification Boards' Association, 1992).

The RPBs survived possible abolition at the 1975 re-organisation of Scottish local government, despite proposals in the Wheatley (1969, paras 275–276) Royal Commission report for their absorption into the regional councils that were to acquire

The major groupings of Executive NDPBs (continued)

operational responsibility for water and sewerage. The decisive argument for their continued existence was that it would be inappropriate to dissolve independent boards with watchdog functions and hand these to organisations whose activities caused significant pollution. An amendment to the Local Government (Scotland) Act 1973, tabled by the Labour Opposition in the name of J. Dickson Mabon MP, was accepted by the Conservative government. This provided for the continued existence of the RPBs; in fact, the amendment had been drafted by them.²⁴ There was no such separation of regulation from operations in England until water privatisation; the National Rivers Authority, later to be absorbed into the Environment Agency, then took over the regulatory functions of the Regional Water Authorities, the operational activities of which were privatised in December 1989.

The reason why RPBs were classified by *Public Bodies* as Executive NDPBs was that the Secretary of State for Scotland had appointed one-third of the membership. The other board members were appointed equally from regional and district councils. This local authority proportion was reduced in 1992 by a series of statutory instruments, one for each RPB, which brought about smaller boards and equal representation of local authority and Secretary of State nominees.

In terms of both accounting and financial control, RPBs were aligned to the local authority system. Revenue expenditure was financed by requisitions upon the relevant local authorities. Until the introduction of the community charge in 1989/90, this requisition was based upon the penny rate product of each local authority. Subsequently, The River Purification Boards (Establishment) Variation (Scotland) Order 1989 set fixed population-based percentages for each local authority. Capital expenditure paralleled the local authority system, meaning that section 94 consents were granted under the Local Government (Scotland) Act 1973. Moreover, the framework for local authority capital allocations (Macarthur, 1992) enacted in the Local Government (Scotland) Act 1975, also applied to RPBs. Given that RPBs were small organisations, with minimal capital expenditure, the customary practice was to tie in with a local authority loans fund. For example, the Clyde River Purification Board borrowed through the loans fund of the City of Glasgow District Council and was charged the average loans pool rate.

Section 8 of the Rivers (Prevention of Pollution) (Scotland) Act 1951 prescribed application of the relevant provisions concerning accounts and audit of the Local Government (Scotland) Act 1947. RPBs adopted the financing basis (Rutherford, 1983) traditionally employed in UK local authorities. Only North East River Purification Board had, in 1995/96 (the last year before dissolution), made the transition to accruals, complying with the CIPFA guidance on capital accounting that took effect from 1994/95. A major factor dissuading the other six RPBs seems to have been their imminent

dissolution. In terms of financial reporting style, the then Scottish Office Environment Department had been 'recommending' that the accounts should be incorporated in the RPBs' annual reports.²⁵

All seven RPBs were absorbed into the Scottish Environment Protection Agency (SEPA) when it was established on 1 April 1996. A consultation paper had met some resistance: for example, Tay River Purification Board (1993, p. 5) claimed that '... SEPA was an extreme solution to the problem of co-ordination and co-operation between regulatory agencies which has already been largely addressed'. However, this resistance was unlikely to be effective given that SEPA and its England and Wales counterpart (the Environment Agency) were being established by high-profile GB legislation, enacted as the Environment Act 1995.

In expenditure terms, the RPBs were unimportant. They had a curiosity value in that they straddled the central/local government boundary. With the establishment of SEPA, their functions were absorbed into an Executive NDPB controlled by central government. At the same time, the operational water and sewerage functions, which had remained part of Scottish local government, were transferred in April 1996 to three public water authorities. These are treated in the Survey as public corporations, controlled through the standard mechanism of EFLs (Lloyd, 1999).

7.2 A PROFILE OF LIVING GROUPINGS

It is useful to collate those Executive NDPBs still in existence into a number of groupings. Undeniably, an element of judgement is involved in determining what the groupings should be and which bodies should be assigned to each grouping. Again, the test is whether this procedure assists in understanding patterns of organisational characteristics. Five groupings²⁶ have living members, though the numbers cited below relate to the study population as a whole and therefore include some that no longer exist. The first three are categorised on the basis of functionality: the Agricultural and Biological Research Institutes (ABRIs) form one well-defined grouping of five organisations; another five fall within the important, though less well-defined, grouping of economic development bodies (EDBs); and seven are grouped as cultural bodies (CBs). The remaining two groupings are categorised according to what is taken to be their primary purpose: funding bodies (FBs) and service delivery and regulatory bodies (SDRBs). Some Executive NDPBs may fit into more than one of these, so that judgement has to be exercised as to which role is the most important. For example, those which disburse large amounts of public money are classified to FB, even if they also undertake regulatory functions.

Agricultural and Biological Research Institutes

The five ABRIs are classified as Executive NDPBs, partly because of the Secretary of State's power of appointment and their dependence on grant-in-aid (GIA) from the Scotland Programme.²⁷ They are not part of higher education and have traditionally been much further from policy advice than the Scottish Agricultural Science Agency. All except the Scottish Crop Research Institute can trace their history back to acts of individual philanthropy (Watt, 1998).²⁸ All five are now established as CLGs, and all have charitable status. There are variations, however, in the precise legal arrangements and in how financial reporting takes place. In one case, consolidated accounts are produced for the Executive NDPB (Macaulay Land Use Research Institute), covering the activities of the grant-aided body as well as the fund-raising arm (Macaulay Development Trust) and the limited company subsidiary established to commercialise the science. In contrast, the Moredun Foundation²⁹ produces consolidated accounts covering the activities of the Executive NDPB (Moredun Research Institute) and the limited company subsidiaries established to commercialise the science and exploit the property assets. At least some of this complexity represents conscious attempts to minimise tax liabilities. Although the ABRIs had been looking vulnerable to retrenchment and/or privatisation, they have recently acquired a new political prominence, especially as food safety and public health issues have climbed the political agenda.

Economic development bodies

This is a very important grouping in Scotland, characterised by a high political profile and the disbursement of very large amounts of public expenditure. Moreover, there has been a significant degree of organisational change during the study period. Indeed, 1990/91 represented the final year of two organisations of substantial longevity: the Highlands and Islands Development Board (created 1965) and the Scottish Development Agency (created 1975). Both were Executive NDPBs treated in the Survey as public corporations. As from 1991/92, their roles were taken over by two new bodies (Highlands and Islands Enterprise (HIE) and Scottish Enterprise (SE)), both of which depended heavily for service delivery upon a network of Local Enterprise Companies (LECs), all created as CLGs. While HIE and SE were treated in the Survey and the national accounts as public corporations, LECs were classified to the private sector.³⁰ In addition, training functions were transferred from the Training Agency (despite its name, an integral part of the then Department for Employment) to the new structure. Unsurprisingly, this new structure, straddling the boundary between the public and private sectors, has generated several important controversies. The question of whether the LECs would be consolidated in the accounts of HIE and SE receives detailed attention in chapter 10.

The fifth body in this grouping, the Scottish Tourist Board (STB), has existed since 1969,

The major groupings of Executive NDPBs (continued)

by way of the Development of Tourism Act 1969. It is an Executive NDPB that is not treated as a public corporation in the Survey. Interestingly, STB has its own network of 14 Area Tourist Boards (ATBs). This is a statutory network established under the provisions of the Local Government (Scotland) Act 1994, replacing an earlier non-statutory network of 32 ATBs. Both networks have taken the form of CLGs. In contrast with LECs, neither vintage of ATBs has been consolidated by STB.

Cultural bodies

This is a somewhat diverse grouping, though all seven have charitable status. Three of the most significant members (the National Galleries of Scotland, the National Library of Scotland and the National Museums of Scotland) have much in common. All are long-established statutory bodies, with the present statutory framework being the National Heritage (Scotland) Act 1985. Indeed, the same legislation also covers the Royal Botanic Garden, Edinburgh, which received its Royal Charter in 1699. The other survivor is the Royal Commission on the Ancient and Historical Monuments of Scotland, which was established by Royal Warrant in 1908.

The sixth and seventh bodies are connected: the death of the Scottish Film Council was followed by the birth of Scottish Screen. This new Executive NDPB, incorporated on 24 March 1997, then acquired (on 1 April 1997) the assets and undertakings of the Scottish Film Council, Scottish Broadcast and Film Training, the Scottish Film Production Fund and Scottish Screen Locations. The other three bodies had all been substantially dependent on public funding. Both the Scottish Film Council and Scottish Screen took the legal form of CLG.

Funding bodies

The common characteristic of this grouping is that they disburse public money to other bodies. Five of the eight are responsible for large sums of public money, while the remaining three are fairly insignificant in this respect. The important five are the Scottish Arts Council, the Scottish Higher Education Funding Council, Scottish Homes, the Scottish Legal Aid Board and the Scottish Sports Council. Three of the five – the Scottish Higher Education Funding Council, the Scottish Legal Aid Board and Scottish Homes – are statutory corporations; Scottish Homes is differentiated by treatment as a public corporation in the Survey. Two are established under Royal Charter: the Scottish Sports Council in 1972 and the Scottish Arts Council in February 1994.³¹ Of these five, three are classified in table 3 as survivors (Scottish Homes, Scottish Legal Aid Board and Scottish Sports Council); one as a birth (Scottish Higher Education Funding Council); and one as a repatriation (Scottish Arts Council). A common feature of four of the bodies is that they each support large networks of organisations, mostly with private legal form (but many of which should be viewed as quasi-public in view of their overwhelming

dependence on public money). The exception is the Scottish Legal Aid Board, which processes payments to private legal firms for services rendered to eligible clients. The Scottish Sports Council has charitable status for part of its activities; it has placed its sports training centres in a CLG (The Scottish Sports Council – Trust Company), which enjoys charitable status by virtue of its educational purposes. A recent development of far-reaching importance has been the establishment of the Scottish Sports Council National Lottery Fund Account, whose scale now dwarfs the grant-in-aid from the Scotland Programme.

The other three bodies in this grouping are much less significant. The Edinburgh New Town Conservation Committee is one of those Executive NDPBs without a basis in statute or in a Royal Charter or Warrant. Established in 1970, it is a vehicle for collaboration between the City of Edinburgh Council and the Scottish Office Development Department for distributing small conservation grants. It is recognised by the Inland Revenue as a charity, with its finances being managed by the City of Edinburgh Council's Finance Department. As from 1995, it has been reclassified out of *Public Bodies*, without appearing in any other classification. SHERT is a statutory body now governed by the National Health Service (Scotland) Act 1978, taking the form of a private law trust and being the sole case of contracted-out management.³²

Service delivery and regulatory bodies

The final grouping comprises service delivery and regulatory bodies. Originally, the researchers intended to draw a distinction between bodies with a service delivery remit and those with a regulatory remit. However, this intended distinction was abandoned, partly because several bodies exercised both and partly because the effort involved in seeking to define a sustainable boundary would have diverted the project into operational matters. As, effectively, the residual grouping of Executive NDPBs, the service delivery and regulatory bodies grouping includes a highly diverse set of organisations. Some have a high profile in Scottish public life while others are almost invisible.

7.3 LIFE AFTER RECLASSIFICATION OUT

Colleges of Education

Some Executive NDPBs fell out of the annual census simply because they were reclassified out. By far the most important examples of this have been the Colleges of Education, the traditional deliverers of much teacher training in Scotland. If not yet in the mortuary, then these are in its ante-room. They fell into the category of Executive NDPBs because of the Secretary of State for Scotland's powers of appointment, which were unique in the higher education sector. Heald and Geaghan (1994) demonstrated the

The major groupings of Executive NDPBs (continued)

increased role of funding mechanisms in the control of higher education institutions, replacing more direct controls, of which these powers of appointment were just one. These monotechnic institutions were seen to have no future. The first issue of *Public Bodies*, published in 1983, listed seven Colleges of Education in Scotland (Cabinet Office (Management and Personnel Office), 1983). As from the 1993 census, the then remaining five were all reclassified out as a result of the removal of these powers of appointment. Significantly, four of these five had by December 2000 been taken over by universities, while 'merger' talks were taking place for the other. The Colleges of Education are treated as outside the scope of this research report, because they would better fit into a study of higher and further education providers. Their demise does, however, provide a telling reminder of how the substitutability of control mechanisms complicates analysis of relationships between the central government core and 'distanced' organisations.

Other reclassifications out

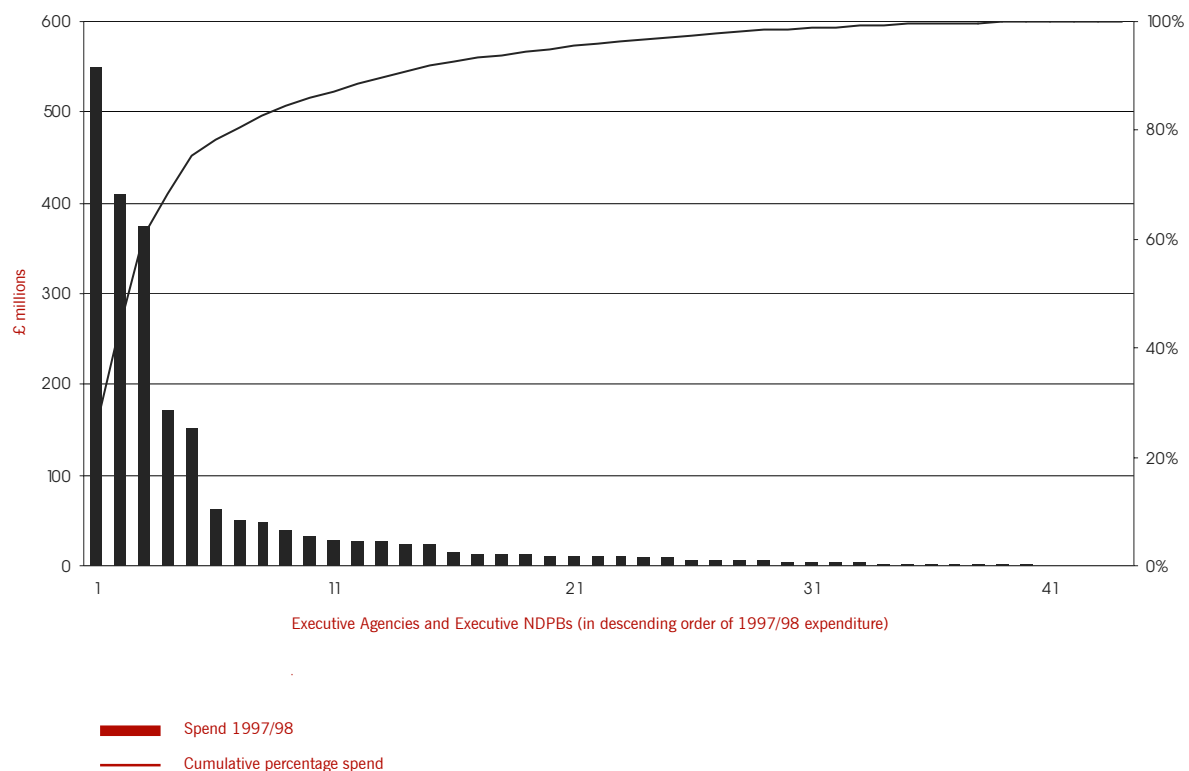
A number of other Executive NDPBs were also reclassified out, without that presaging dissolution or assignment to another recognisable category. Surprisingly, some organisations are reclassified out of the residual category of Executive NDPBs, without being accommodated in some other category. Sequenced by the first annual *Public Bodies* census of Executive NDPBs in which they did not appear, the reclassifications out were: the Scottish Council for Research in Education in 1991;³³ the Scottish National War Memorial in 1992; the Scottish Council for Postgraduate Medical Education (which was reclassified as an NHS body) in 1993;³⁴ and the Edinburgh New Town Conservation Committee in 1996.

Moreover, the General Teaching Council for Scotland was reclassified out after the 1994 census, curiously being classified as an Advisory NDPB in the 1995 to 1998 editions of *Public Bodies*. It had not received grant-in-aid in the study period, describing itself as 'fully financially independent' (General Teaching Council for Scotland, 1995, p.12). Table 4 classifies it as self-financing, though the regulatory nature of its levy on registered teachers urges caution in describing it thus.

8. Mechanisms of financial control

The mechanisms of financial control over Executive Agencies and Executive NDPBs have a dual function. As well as being the means of exercising political authority over these bodies, they integrate their activities within public expenditure and national accounts aggregates. The mechanisms of financial control are differentiated between Executive Agencies and Executive NDPBs, with multiple arrangements applying within each category. The dramatic variations in the expenditure of these bodies should be noted. Figure 4 uses two scales: the left-hand scale shows operating expenditure in 1997/98 for the 44 Executive Agencies and Executive NDPBs that produced their own accounts in that year; and the right-hand scale shows the cumulative percentage of total spending. Five bodies (Scottish Higher Education Funding Council, Scottish Enterprise, Scottish Homes, Scottish Prison Service and Scottish Legal Aid Board, in that order) accounted for 75% of total spend. The next ten³⁵ take the cumulative percentage, attributable to 15 (34%) out of 44 organisations, up to 92%. In contrast, the last 16 account for just under 2%.³⁶

Figure 4: Size distribution of study organisations in 1997/98



8.1 EXECUTIVE AGENCIES

Most Executive Agencies remain on-Vote, in the sense that Parliament votes their funding as part of the annual Supply Estimates. Since the substitution of Simplified Estimates for 'traditional' Estimates in 1996/97, however, the level of aggregation at which Supply is now voted means that the funding of a particular Executive Agency is often not separately identified.

On-Vote agencies can be controlled either on a gross running costs or on a net running costs basis. On gross running costs, expanded activity may cause financial difficulties for an Executive Agency, even when the additional revenues from fees and charges exceed the additional gross expenditure. These additional revenues would be surrendered to the Treasury as Consolidated Fund Extra Receipts (CFERs); the Executive Agency would require a Supplementary Estimate to cover the additional gross expenditure and the application of additional receipts as appropriations in aid. Accordingly, in the case of an Executive Agency whose fluctuating level of activity makes the amount of its activity-related receipts uncertain, it would seem advantageous to be controlled on a net running costs basis. The presumption would be that the Treasury would facilitate the necessary Supplementary Estimate, entailing both additional gross provision and additional Appropriations in Aid. Nevertheless, the intended move of Historic Scotland in 1997/98 from gross to net running costs control was abandoned just before it was implemented. This was because the Treasury does not permit bodies controlled on a net running costs regime to benefit from End-Year Flexibility (EYF);³⁷ this had not been appreciated by either Historic Scotland or its parent department. While on gross running costs, Historic Scotland had taken advantage of EYF, whereby it had been allowed to carry forward 100% of its underspendings. Table 2 shows that all nine on-Vote Executive Agencies are controlled on the basis of gross running costs.

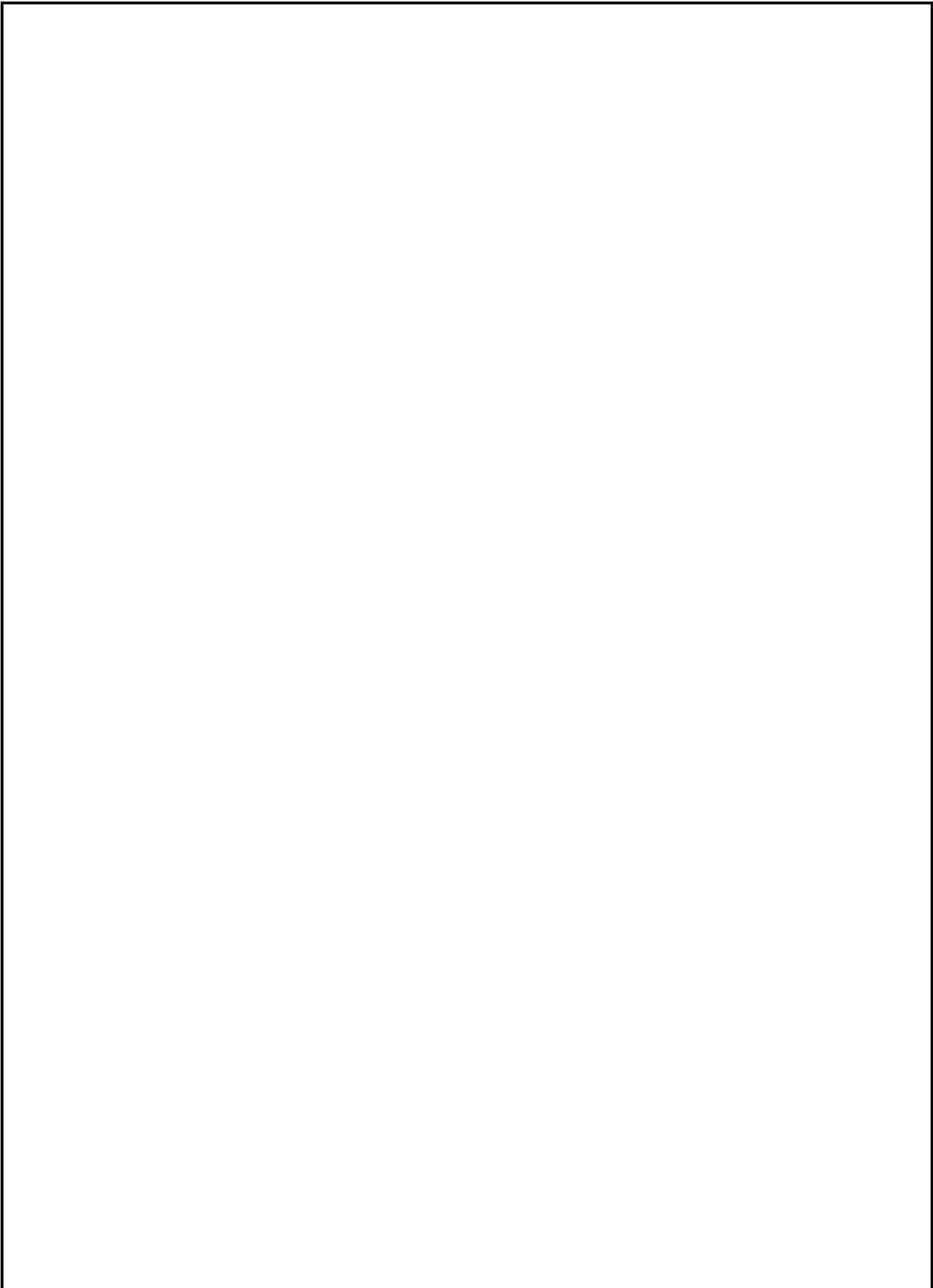
Registers of Scotland is the only Executive Agency funded by the Scotland Programme which is not on-Vote, having operated as a Trading Fund from 1996/97. Consequently, control is exercised over its EFL, which can be positive, zero or negative, and not over its gross expenditure or receipts. Typically, EFLs consist of a mixture of Voted and non-Voted expenditure.

8.2 EXECUTIVE NDPBS

The position regarding Executive NDPBs is considerably more complicated. First, some minor (in expenditure terms) Executive NDPBs are on-Vote, just like on-Vote Executive Agencies. Examples are the Deer Commission and the Crofters Commission.

Second, the most important NDPBs (in expenditure terms) are financed by grant-in-aid (GIA). The distinction between GIA and grant relates to the fact that GIA is paid on a regular, scheduled basis, whereas an Executive NDPB financed by grant would receive the money only when it is actually required, for example for a particular purchase. For most GIA-financed Executive NDPBs, it is the GIA that scores against the Scotland Programme. In the case of those Executive NDPBs treated as public corporations, however, their EFL is scored instead. Since the March 1995 issue of *Serving Scotland's Needs* (Scottish Office, 1995, p. 186), there has been an annual table showing the contribution of Executive NDPBs to the public expenditure Control Total. Each affected Executive NDPB receives an annual GIA letter from its sponsoring department within the framework set by its financial memorandum. Typically, the GIA letter provides firm figures for the next financial year, disaggregated by major function, and indicative figures for the next two financial years. Information derived from these unpublished letters sometimes reaches the public domain, particularly when an Executive NDPB unofficially makes them available to journalists.

Third, a few Executive NDPBs have been self-financing, a situation that, if it continues, may lead to their reclassification out of Executive NDPBs. However, this practice raises important concerns. Reclassification out of the residual category of NDPBs leaves those bodies in 'limbo', belonging nowhere. The cases under consideration here are not those of genuine privatisation, when the public nature of the body is eliminated. Some of the affected bodies have retained their public character, in part owing to the ultimate source of their funding. This may come indirectly from public funds, perhaps through an intermediary, or from private firms or households through a 'levy' bearing many of the characteristics of a tax. The most obvious example in this study is the General Teaching Council for Scotland, funded by a compulsory levy on registered teachers.



9. Auditing arrangements

Auditing arrangements have strongly influenced the framework within which financial reporting takes place and therefore they are considered before financial reporting. Moreover, there are a number of audit-related matters that are conveniently handled separately (Auditing Practices Board, 1996). Three important issues emerge for consideration:

- (1) the allocation of responsibility for the appointment of auditors
- (2) the eligibility of audit practitioners for the audit of particular bodies
and
- (3) the scope of the audit, particularly whether it extends beyond statutory certification of accounts to embrace
 - (a) regularity and propriety³⁸ and
 - (b) value for money (VFM).

The basis of the audit appointment will affect the scope of the audit. Although the NAO can mount a VFM study, irrespective of the audit arrangements, both the Public Accounts Committee and the NAO itself have expressed concern that the regularity and propriety dimension may be missing when a private auditor is appointed to undertake a certification audit.

On responsibility for the audit, the position of the ten Executive Agencies within the Scotland programme is uniform; all accounts are audited by the C&AG, who signs the audit certificate in his own name (currently, Sir John Bourn). The C&AG is the auditor, whether or not the Executive Agency is on-Vote or has trading fund status. This does not necessarily mean, however, that the audit was conducted by staff employed by the NAO.

For example, the audit of the Scottish Agricultural Science Agency (SASA) was for several years sub-contracted to Deloitte Touche.³⁹ In such cases, the audit files are reviewed by the staff of NAO Scotland, to satisfy themselves that the C&AG can sign the audit certificate with confidence. In none of these cases is there any disclosure in the report and accounts of this sub-contracting arrangement. A resulting concern is that other parts of the professional firm undertaking the audit might have other business relationships with the audited body, of which Parliament, the media and the public would be unaware, thereby raising concerns about auditor independence. The lack of disclosure places too much reliance on the NAO to ensure that no such conflict of interest materialises. The audit arrangements for Executive NDPBs are tabulated in the final two columns of table 4. Their position is much more complicated than that for Executive Agencies, owing

Auditing arrangements (continued)

to the diversity of legal status and the long period over which they have been established. Eleven different arrangements have been identified as applying to Executive NDPBs within the Scotland Programme. The first eight relate to those Executive NDPBs which have been established under primary legislation; they are differentiated by whether the primary legislation:

- (i) provides for the C&AG to audit the accounts of a statutory body, in which case 'White Paper accounts'⁴⁰ are always presented to Parliament by the C&AG as auditor, whether or not the audited body publishes its own report and accounts
 - (ii) confers upon the Secretary of State the power to appoint auditors for a statutory body, and it is agreed that the C&AG would undertake the audit, an arrangement which is described by the NAO as a 'non-statutory certification audit'⁴¹
 - (iii) confers upon the Secretary of State the power to appoint auditors for a statutory body, and the Secretary of State has appointed auditors other than the C&AG⁴²
 - (iv) confers upon the Secretary of State the power to appoint the auditors for a statutory body, and the Secretary of State has appointed auditors other than the C&AG, and also requires the C&AG 'to examine the statements of account and auditors' reports, certify the statements and prepare a report on the results of his examination' (Nurses, Midwives and Health Visitors Act 1997)⁴³
 - (v) confers upon the statutory body the power to appoint its own auditors⁴⁴
 - (vi) makes no statutory provision for audit⁴⁵
 - (vii) confers upon the Secretary of State the power to establish a body, to which public functions can be delegated and which is in turn established as a CLG, a legal form which cannot be audited by the C&AG, leaving the Executive NDPB itself to appoint a private audit firm⁴⁶
- and
- (viii) provides for the establishment of a private trust, a legal form which cannot be audited by the C&AG, leaving the Executive NDPB itself to appoint a private audit firm.

The ninth and tenth cases relate to those Executive NDPBs which have no statutory basis:

(ix) they take the form of a CLG, a body that cannot be audited by the C&AG, leaving the Executive NDPB itself to appoint a private audit firm⁴⁷

and

(x) they are audited under the provisions of the Industrial and Provident Societies Acts, under which they have been established, with the governing body having a duty to appoint auditors.⁴⁸

The eleventh and final case relates to Executive NDPBs that fall within the framework of local authority, rather than central government, accounting practice and audit arrangements:

(xi) River Purification Boards, straddling the central/local government boundary, were part of the local authority auditing framework; audits were commissioned by the Accounts Commission for Scotland and conducted either by in-house staff or by private firms.⁴⁹

This comparison of audit arrangements leads to three observations. First, uniformity in the case of Executive Agencies can be attributed to two factors. Of obvious importance is their common origin as part of the Next Steps programme. Moreover, because they remained legally part of their parent departments, accounting and audit continued to be controlled by the Exchequer and Audit Departments Act 1866 and Exchequer and Audit Departments Act 1921, with section 5 of the latter giving the Treasury power to direct certain specific accounts.

Second, the diversity and complexity of auditing arrangements for Executive NDPBs are attributable to a combination of factors: the long historical period over which the existing bodies have been created; the absence of strong 'central' control over their development; and the residual nature of the category, meaning that it embraces organisations of vastly different purposes, characters and sizes.

Third, the Standing Committee Proceedings of the Government Accounts and Resources Bill in early 2000 were dominated by an acrimonious dispute about which public bodies would automatically be audited by the C&AG. Although successive governments have stressed that the adoption of private forms was a means of securing efficiency gains and of allowing greater flexibility as circumstances develop, senior Parliamentarians have alleged that there has been an 'unmentionable motivation'⁵⁰ to place new bodies outside the scope of audit by the C&AG.⁵¹ This is directly a consequence of adopting the legal form of CLG and can indirectly be the consequence of allowing the relevant Secretary of

Auditing arrangements (continued)

State to appoint auditors. One example is the Secretary of State's appointment of the auditors of the Scottish Environment Protection Agency, following the arrangement for the counterpart English body. Whatever the merits of these two interpretations, this was not a marked development in Scotland.

10. Financial reporting

Empirical evidence on three issues will be presented in this chapter:

- (i) the timeliness of financial reporting, as measured by audit lags
 - (ii) the style of financial reporting, as reflected in the documents that serve as vehicles for periodic accountability
- and
- (iii) the nature and extent of audit qualifications, which can be viewed as indicators of conformity with prescribed accounting policies.

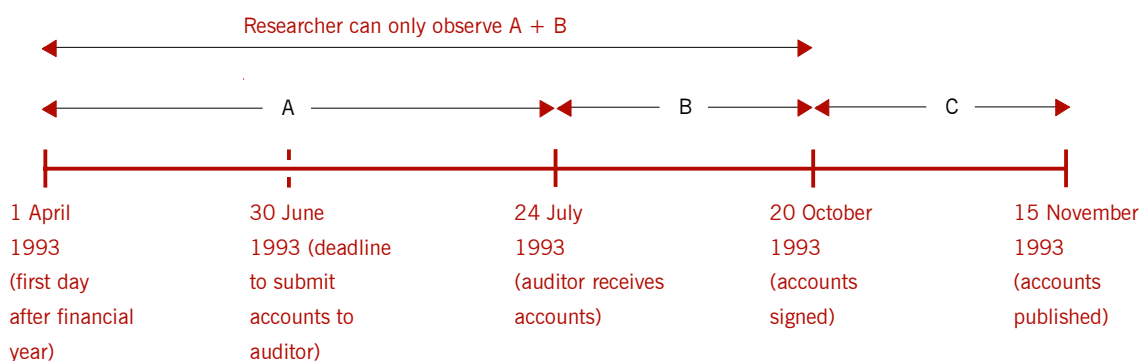
A number of technical issues relating to the application of accounting standards, some of which arise in the context of audit qualifications, will be examined in chapter 11.

10.1 AUDIT LAGS

On timeliness, the ideal measure would be the date on which the document containing the accounts is made public. In practice, such a date is often not ascertainable for earlier years and almost impossible to verify even for a current year. It is therefore necessary to work with an imperfect proxy, namely the date on which the audit certificate is signed. The obvious drawback of this is that variable amounts of time may elapse between the auditor signing off the accounts and the date when publication brings them into the public domain.

Figure 5 provides a schematic representation. Period A represents the time that elapses from the first day after the end of the financial year until the day when the audited organisation (auditee) delivers the draft accounts to the auditor. Period B represents the time that elapses from the day on which the auditor receives the accounts and the day on which the auditor signs the audit certificate. Period C represents the time that elapses from the day on which the auditor signs the accounts to the day on which the accounts are published. The researcher confronts two measurement problems. First, there is no public record of when the auditor receives the accounts and, in any case, the time the auditor needs to audit the accounts will depend on the quality of the auditee's work. Moreover, there are variations in the extent of the auditor's involvement, as a source of advice, during the process of preparation of draft accounts. Second, it can be remarkably difficult to establish the day on which the reports and accounts of public organisations are published; there is no verifiable counterpart to a Stock Exchange announcement for a listed public company. Consequently, whereas a researcher would prefer to work in terms

Figure 5: Components of the reporting lag



Phase A is handled by the auditee

Phase B is handled by the auditor, but the time taken depends not only on auditor competence but also on the quality of auditee work at Phase A and issues giving rise to possible audit qualifications

Date on which accounts are sent to the auditor is not in the public domain

Management letters are not in the public domain but are sometimes leaked

Phase C is handled by the auditee, except in the case of White Paper Accounts

Audit lag consists of: A + B

Reporting lag consists of: A + B + C

of the reporting lag (A+B+C), analysis must be conducted in terms of the audit lag (A+B). Annex 10.1 elaborates on issues relating to publication arrangements.

Table 7 tabulates dates on audit certificates and audit lags for Executive Agencies within the Scotland Programme, listing these in alphabetical order. Audit lags are measured in terms of the number of months between the end of the financial year (always 31 March) and the date on the audit certificate. Such a measure is only computed for those years – usually excluding the first year of existence – in which the Executive Agency produces audited accruals accounts.⁵² Means and standard deviations of the audit lag have been calculated for each row (Executive Agency) and column (financial year) in table 7. These numbers should be interpreted with care, particularly as the population of Executive Agencies has been expanding through time. During the study period, there were no audit qualifications for Executive Agencies within the Scotland Programme.

There is no obvious benchmark against which audit lags should be assessed. However, there are private sector requirements with regard to the reporting lag. Wild and Creighton

(1999, p. 19) note that ‘... Stock Exchange companies and [Alternative Investment Market] companies are required to issue their annual reports and financial statements within six months following the date of the end of the financial period’. The Companies Act requirements are that a public company should deliver its annual accounts and report to the Registrar of Companies within seven months, and a private company within ten months. Table 7 creates the impression of commendable speed, across both years and Executive Agencies. Although it should be remembered that there is no comparable information on reporting lags, table 7 shows almost identical audit lags. One aspect of the Next Steps programme was that most Executive Agencies enjoyed the benefit of a running-in period without audited accruals accounts.

In a comparable format, part A of table 8 tabulates dates on audit certificates and audit lags for Executive NDPBs within the Scotland Programme, listing them in alphabetical order within the groupings used earlier in figure 3 and tables 3 to 5. The financial year usually, but not always, ends on 31 March. On those occasions where accounts have been qualified, the entry is shaded. An Executive NDPB has no audited accounts when its expenditures and revenues are on-Vote and are therefore covered solely by the audit of the relevant appropriation account. Such instances have been coded ‘OV’. Problems of document availability mean that there are missing data, with such instances coded ‘MD’. Organisations excluded from this research are labelled ‘OSS’, signifying that they are outside the scope of the study.

Part B of table 8 shows that the mean audit lag for Executive NDPBs (5.05 months) is considerably longer than that in table 7 for Executive Agencies (3.35 months). Moreover, the coefficient of variation is 0.35 for Executive NDPBs but only 0.03 for Executive Agencies. Furthermore, there are noticeable differences in mean audit lags for particular groupings of Executive NDPBs. In increasing order of mean audit lag, the figures are: NTDC (2.41 months); EDB (3.51 months); ABRI (3.82 months); FB (4.50 months); SDRB (5.61 months); CB (6.45 months); and RPB (8.28 months). The grouping with markedly longer audit lags is the former River Purification Boards (RPBs), which fell within the local government accounting and auditing framework. Unpublished work by a doctoral student at the University of Aberdeen indicates that the results for RPBs are consistent with, though shorter than, the audit lags for Scottish local authorities during the 1990s. In the final year of the existence of RPBs (1995/96), the mean audit lag was 9.63 months. Other than Solway RPB, which recorded an audit lag of 1.77 months, the rest were not audited until quite close to the end of the first financial reporting year of SEPA on 31 March 1997.

There is some anecdotal evidence that the system of White Paper accounts has been a source of delay. Delays have occurred in the idiosyncratic case of the National Board for

Nursing, Midwifery and Health Visiting for Scotland, which is subject to the dual auditor procedure identified as case (iv) in chapter 9. For example, the 1997/98 annual report was published in August 1998. In contrast, the White Paper account was not even 'Ordered to be printed' until 11 March 1999, the date which The Stationery Office website records as the date of publication. This reveals a reporting lag unexpectedly longer than the audit lag shown in table 8, where the entry relates to the date on the C&AG's audit certificate (17 December 1998) rather than the date on the private auditor's certificate (9 November 1998). Throughout the period of the study, the National Board has followed the practice of publishing unaudited figures in its annual report.⁵³ This is an undesirable practice, though one which is understandable given the protracted audit process and the long period between the C&AG signing the audit certificate and the publication of the White Paper account.

Another finding is that, in the case of White Paper accounts, there is a coincidence of dates of C&AG signature and hence of audit lags. There is strong pressure from the Treasury for Executive Agencies and Executive NDPBs to lay their accounts before Parliament before the summer recess, which usually starts in late July. If that timetable is missed, White Paper accounts, as House of Commons (HC) Papers (see annex 10.1), cannot then be laid until Parliament reassembles, usually in late October. As a matter of policy, the C&AG will not certify accounts until close to the date on which they will be laid, in order to avoid the possibility that subsequent events may make the accounts misleading at the date of laying. These factors therefore lead to a bunching of certification dates around July and October.

10.2 STYLE OF REPORTING DOCUMENTS

An obvious issue is the format in which public organisations such as Executive Agencies and Executive NDPBs discharge their accountability for the public funds at their disposal. One of the most striking facets of the financial reporting of the study organisations is the diversity of document form and content. As shown below, there are serious nomenclature problems (the name of a document does not necessarily reflect its content) and sometimes parallel documents are published in different formats.

In order to provide a basis for analysis and comparison, a two-stage procedure has been adopted. First, all relevant annual reporting documents have been categorised on the document classification scheme set out in part A of table 9. Documents have been classified on the basis of what information they contain, *not* on the basis of their titles. Six document types have been identified and scored according to whether they contain the following items:

- (i) a report for the year
- (ii) the principal financial statements associated with accruals-based financial reporting
- (iii) detailed notes to the accounts associated with accruals-based financial reporting
and
- (iv) an auditor's report and audit certificate.

The process of classification involves some judgement, particularly on whether there is sufficient text to be classified as a report and on whether there is a full set of financial statements (Wild and Creighton, 1999). Abbreviations have been devised to denote the document types:

- (a) **Wpac** (White Paper accounts) contain all four items and take the form of House of Commons (HC) Papers formally presented to Parliament by the C&AG and not by the Executive NDPB
- (b) **Repac** (report and accounts)⁵⁴ contain all four items
- (c) **Sepac** (separate accounts) contain all items except the report
- (d) **Repfh** (report and financial highlights) contain a report for the year and the principal accruals-based financial statements⁵⁵
- (e) **Cashac** (cash accounts) contain none of the accruals-based financial statements
and
- (f) **Rep** (report) contains only a report for the year.⁵⁶

Second, reporting styles are then defined by the document, or combination of documents, by which the study organisation seeks to satisfy periodic accountability. This scheme for classifying reporting documents gives rise to a plethora of possible reporting styles. Of the large number of possible combinations, 12 are listed in part B of table 9 on the pragmatic grounds that at least one instance has been found by this study.⁵⁷

Table 10 shows the reporting style of Executive Agencies within the Scotland Programme.

Undoubtedly, the dominant style is Repac, except in the years before preparation of accruals accounts. The exception to this pattern is the Scottish Record Office, an on-Vote Executive Agency that does not produce audited accounts. Two documents have been produced in each of the years of its life as an Executive Agency: cash accounts, prepared under the 'simpler agencies' dispensation; and the report of its chief executive who, as the holder of the statutory post of 'Keeper of the Records of Scotland', must report annually to Parliament.⁵⁸

Table 11 summarises the reporting styles of Executive NDPBs during the study period. As a result of the difficulties of collecting such documents, there are a few gaps. It is clear that the position is much more varied and complex than that for Executive Agencies. A number of curiosities, historical and otherwise, have substantive implications for financial reporting. For example, the audit arrangements discussed in chapter 9 determine whether Wpacs have statutorily to be produced. Executive NDPBs, though never Executive Agencies, may be the subject of a Wpac presented to Parliament by the C&AG. Indeed, the taxonomy of reporting styles in Part B of table 9 acquires much of its length because those Executive NDPBs subject to a Wpac usually publish parallel documents in varying formats. In a few cases, a Wpac constitutes the sole channel of reporting.

It is clear from table 11 that there is some uniformity of reporting style within groupings of Executive NDPB. For example, the dominant, though not exclusive, pattern for NTDCs is Repac. All the ABRIs follow a common pattern of annual reporting. For example, the Hannah Research Institute publishes a 'Yearbook', which is principally a scientific report. The document described as 'Report and Accounts' is classified in table 11 as Sepac in light of the brevity of the 'Report of the Board of Directors'. It is clearly explained that:

'The Institute is a charitable company, limited by guarantee not having a share capital, and permitted to omit the word "limited" from its title'. Hannah Research Institute (1998, p. 1)

These are standard company accounts, necessarily audited by private firms. A 'Statement of Financial Activities' (SOFA), required under SORP 2 (Charity Accounting Review Committee, 1995), appeared for the first time in 1996/97. The 1997/98 accounts of the Macaulay Land Use Research Institute (1998, p. 14) contained the following statement in Note 1:

'The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and are based on the standardised accounts format issued by the Scottish Office Agriculture, Environment and Fisheries Department in May 1998 and the Statement of Recommended Practice -

Accounting by Charities issued by the Charity Commissioners for England and Wales in October 1995'.

Unfortunately, the classification system for reporting documents starts to break down in the case of RPBs because of their links with the local authority accounting and auditing system.

10.3 AUDIT QUALIFICATIONS

Most of the study organisations producing accruals accounts have been audited on a 'true and fair' basis, with certain exceptions considered below. No Executive Agency within the Scotland Programme has ever been qualified by the C&AG. In the case of Executive NDPBs within the Scotland Programme, qualifications have been rare. The detailed record is reported in table 12. Strikingly, 13 out of the 17 qualifications are attributable to three Executive NDPBs: Highlands and Islands Enterprise (4); Scottish Enterprise (4); and the Scottish Vocational Educational Council (5).

Overall, this analysis creates a good impression of the conformity of the accounting statements, of both Executive Agencies and Executive NDPBs, with relevant accounting standards. However, the discussion in chapter 11 raises some serious concerns. In particular, there are grounds for believing that Accounts Directions issued by the sponsoring department, with the agreement of the Treasury, have sometimes been used as mechanisms for relaxing the full rigour of accounting standards.

Agricultural and Biological Research Institutes

The only occasion on which there has been an audit qualification for this grouping was in 1990/91. This concerned the Animal Diseases Research Association, the predecessor of both the Moredun Foundation and the Moredun Research Institute. Pannell Kerr Forster qualified the accounts because of the absence of depreciation on fixed assets, contrary to SSAP 12, and because of the absence of 'complete assurance' in relation to the opening stock balance. In the 1991/92 accounts, the same auditors made the same comment regarding the breach of SSAP 12, but did not qualify.⁵⁹

Cultural bodies

In 1994/95, the C&AG qualified the accounts of the National Galleries of Scotland (NGS) on the grounds that they had failed to consolidate the Trust Funds and Bequests as required under FRS 5 (ASB, 1994b), published in April 1994 and mandatory for reporting periods ending on or after 22 September 1994, though earlier adoption was encouraged. The key point is that FRS 5 re-emphasised the reporting of economic

substance irrespective of legal form. National Galleries of Scotland complied with this standard in the following year.

Economic development bodies

Two EDBs (Highlands and Islands Enterprise and Scottish Enterprise), both established in 1991/92, incurred a series of audit qualifications from the C&AG. In 1991/92, these related to payments to their associated Local Enterprise Companies. The C&AG considered that there had been inadequate financial controls in place in the LECs, to whose records he had no rights of access. These problems were remedied during 1992/93.

Both these Executive NDPBs also had their accounts qualified in 1992/93, 1993/94 and 1994/95 on the grounds that they had not consolidated their LECs in group accounts. The issue is conveniently tracked in the accounts of Scottish Enterprise. In 1991/92, the Statement of Accounting Policies referred to the direction from the Secretary of State for Scotland to the effect that group accounts should not be prepared (Comptroller and Auditor General, 1992). A key factor in why the C&AG decided to qualify in 1992/93 was the promulgation of FRS 2 (ASB, 1992). This strengthened the emphasis on control as the criterion for consolidation; it was published in July 1992 and was mandatory for reporting periods ending on or after 23 December 1992, though earlier adoption was encouraged. In 1992/93, the Statement of Accounting Policies referred to the direction from the Secretary of State for Scotland, with the consent of the Treasury, to the effect that section 227 of the Companies Act 1989 regarding the preparation of group accounts did not apply (Comptroller and Auditor General, 1993). Exactly the same wording was repeated in 1993/94. There was a further repetition in 1994/95, though with the additional statement that this dispensation would be removed as from 1995/96 (Comptroller and Auditor General, 1995). Both these bodies complied in 1995/96.

New Town Development Corporations

Despite the abolition of all the NTDCs during the study period, their experience is worthy of attention because it raises issues of general importance about the auditing process. Quotations from the audit certificates are revealing. The only qualification for an NTDC was for East Kilbride Development Corporation in 1992/93, which received this carefully worded 'going concern' qualification from Coopers & Lybrand:

'As stated in the Statement of Accounting Principles and notes to the accounts, the Corporation is subject to a Wind-Up Order and the assets are scheduled for disposal in the period to 31st December 1995. The valuation of assets held for industrial, commercial and civic purposes, totalling £79.4 million at 31st March 1993, is based on individual open market values. In view of the fact that it has been necessary to offer assets for sale in packages, there is uncertainty that assets

will realise, on disposal, the values stated in the accounts. In addition, housing properties, totalling £133.6 million, are included in the balance sheet at 31st March 1993, at cost, less depreciation calculated on the basis of loan redemptions. As a result of the disposal procedures required under the Wind-Up process, there is uncertainty that these assets will realise, on disposal, the values stated in the accounts. At this time, it is not possible to quantify the impact of these uncertainties.

*‘Subject to adjustments, if any, that may be required as a result of the matters referred to above, in our opinion the accounts give a true and fair view of the state of the Corporation’s affairs at 31st March 1993, of its surplus and cash flows for the year then ended, and have been properly prepared **in accordance with the accounting arrangements subsisting between the Corporation and the Secretary of State.**’ East Kilbride Development Corporation (1993, p. 51, emphasis added)*

The Statement of Accounting Principles in the qualified 1992/93 accounts contains the following explanation:

‘On 24th February 1992 the Secretary of State for Scotland issued a Wind-Up Order in respect of the Corporation. The Corporation is currently scheduled to be wound up by 31st December 1995. These accounts have been prepared on a going concern basis on the instructions of the Scottish Office Industry Department. The accounts have been prepared on the basis of the fundamental concepts set out in Statement of Standard Accounting Practice No. 2 “Disclosure of Accounting Policies”, with the exceptions that the repayment of the principal element of loans relating to housing expenditure are charged to the Housing Revenue Account and certain accounting treatments are in accordance with arrangements subsisting between the Corporation and the Secretary of State for Scotland.’ East Kilbride Development Corporation (1993, p. 29).

None of the NTDCs ever published in their accounts the Accounts Direction issued by the Secretary of State for Scotland under the New Towns (Scotland) Act 1968.

In the following year, however, Coopers & Lybrand did not qualify the 1993/94 accounts. The audit certificate contained the following paragraph:

*‘Informing our opinion, we have considered the impact on the financial statements of the **fundamental uncertainty** regarding the values at which assets will be realised during the Wind-Up. On the basis of the information presently available, **the Corporation is of the opinion** that the financial statements prepared on the basis of the disclosed accounting principles properly reflect the impact of Wind-*

*Up. However, the amounts at which assets and liabilities are stated in the financial statements may be subject to material change as the Wind-Up progresses. Details of the circumstances relating to this fundamental uncertainty are reflected in the statement of accounting principles. **Our opinion is not qualified in this respect.*** East Kilbride Development Corporation (1994, p. 43, emphasis added).

The following statement appeared in the Statement of Accounting Principles.

'On 24 February 1992 the Secretary of State for Scotland issued a Wind-Up Order in respect of the Corporation. The Corporation is currently scheduled to be wound up by 31 December 1995. In view of this, the Going Concern concept in its conventional sense of an enterprise continuing in existence for the foreseeable future, is not strictly appropriate. Nevertheless, while carrying out asset disposal programmes, the Corporation will continue its operations until the Wind-Up date. These Accounts have therefore been prepared on the basis of the Going Concern concept as modified by the need to reflect the particular circumstances of the Corporation in relation to the disposal of assets, the occurrence of Wind-Up Costs, and taking into account the continuing support of the Scottish Office Industry Department until Wind-Up.' East Kilbride Development Corporation (1994, p. 45)

Coopers & Lybrand used almost identical wording in the accounts for 1994/95, though not in the final nine-month year to 31 December 1996 at which date wind-up had been effected.

The circumstances of East Kilbride Development Corporation were similar to those facing the other four NTDCs, each of which had a wind-up timetable. None of their accounts was qualified by their 'Big 6' auditors. The wind-up timetables interacted with the issuing in May 1993 of SAS 600 by the Auditing Practices Board (1993), which set out new provisions for auditor reports on financial statements. This applied to financial periods ending on or later than 30 September 1993, though early adoption was encouraged (Wild and Creighton, 1999). The effect was to stop fundamental uncertainty from being a qualification, provided that it is adequately accounted for and disclosed. Instead, the requirement is that the auditor's statement should 'conclude with a statement that the opinion is not qualified'. Consequently, from 1993/94, Coopers & Lybrand commented on this issue, while explicitly stating that this did not constitute a qualification. None of the accounts of the other NTDCs was ever qualified, probably because of the later date (December 1993) at which wind-up orders were issued. However, it might be argued that there was fundamental uncertainty well ahead of the date on which formal wind-up orders were issued, and, in any case, the East Kilbride wind-up order was issued before the end of financial year 1991/92.

Service delivery and regulatory bodies

Two SDRBs received audit qualifications in the study period. First, the Scottish Environment Protection Agency was qualified by KPMG on the basis of the limitation of audit scope in its first financial period, which ran from 12 October 1995 to 31 March 1997. Second, the Scottish Vocational Education Council (SCOTVEC) received audit qualifications in each of the years 1991/92 to 1995/96.⁶⁰ Contrary to SSAP 12, SCOTVEC followed the practice of writing off fixed assets in the year of acquisition. Grant Thornton, the auditors throughout the period, qualified the accounts in the years 1991/92 to 1993/94 because of the failure to charge depreciation. Subsequently, Grant Thornton qualified the accounts in 1994/95 and 1995/96 because the Net Book Value of fixed assets and the depreciation charge for the year were understated as a result of the earlier practice. In the final year of SCOTVEC's existence (1996/97), its accounts were not qualified. In terms of chapter 9's categorisation of audit arrangements, SCOTVEC is in case (iv), as a CLG with a statutory basis. It appointed its own auditors and its accounts were audited under the Companies Acts. Although it was recognised by the Inland Revenue as a charity, its accounts for its final year of 1996/97 did not contain the required SOFA.

ANNEX 10.1: PUBLICATION ARRANGEMENTS FOR FINANCIAL REPORTS

This annex has three purposes. First, the centralisation of certain logistical material here avoids the main text being overloaded with incidental though important detail. Second, given the researchers' difficulties in acquiring knowledge of the publication arrangements, this exposition should help others to obtain documents more quickly and with fewer wasted resources. Third, a comprehensive treatment reinforces the case made in chapter 12 for a rationalisation of publication arrangements.⁶¹ There are two separate issues: the difficulty that can arise in securing copies of reports and accounts, particularly for earlier years, and the virtual impossibility of establishing publication dates (and therefore of reliably determining the reporting lag diagrammatically represented in figure 5).

The acquisition of reports and accounts, particularly for past years, is much easier when they form part of one of the two numbered series of Parliamentary publications. The House of Commons Information Office (2000a, p. 1) explains that Command Papers 'are Government Papers – that is, they have their authority from Ministers of the Crown (constitutionally, the Sovereign) and are laid before Parliament as conveying information or decisions which the Government think should be drawn to the attention of one or both Houses of Parliament'. There are few reports and accounts now published as Command Papers, and none for the study organisations.

The House of Commons Information Office (2000c, p. 1) explains that ‘The House of Commons Papers series includes papers which arise out of the deliberations of the House and its Committees or which are needed for its work’, bearing on their cover page the wording ‘ordered by the House of Commons to be printed’. One of the main categories of House of Commons (HC) Papers is ‘Certain Annual and other Reports and/or Accounts required by Statute to be laid before the House’ (House of Commons Information Office, 2000c, p. 1). However, from 1972, nationalised industries were allowed to issue their annual reports outside the HC Papers series, though these continued to be presented to Parliament, sometimes published by HMSO (most of which is now privatised as The Stationery Office) though usually by the industries themselves.⁶²

Many reports and accounts relevant to this study are published as HC Papers. All the accruals financial reports⁶³ of Executive Agencies are published as HC Papers with sessional numbers.⁶⁴ There are a sufficient number of academic libraries with comprehensive collections of HC Papers for researchers, albeit with substantial effort and expense, to secure copies of older reports for Executive Agencies. Given these publications, it might be possible to determine reporting lags for Executive Agencies.

Inevitably, the publication arrangements for Executive NDPBs are more complicated. These are generally synchronised with the auditing arrangements discussed in chapter 9. White Paper accounts, published whenever the primary legislation appoints the C&AG as the auditor (case (i) of chapter 9), are published as HC Papers and are therefore always traceable. An unexpected terminological problem arises, in that the term ‘White Paper accounts’ is not used by librarians specialising in Parliamentary publications. Indeed, they consider that White Papers are always Command Papers. In contrast, the term has been well established in government accounting and auditing; the White Paper accounts in the period examined in this research report are always HC Papers. The original 1986 version of *Government Accounting* stated that: ‘If annual reports are published separately from the relevant Parliamentary White Paper account, they should not be published in advance of the White Paper’ (Treasury, 1986, section G: 8). The same wording appears in the 1998 version of *Government Accounting* (Treasury, 1998a, section 15.2.9). However, the term ‘White Paper account’ may now be falling out of use in government circles; the quoted passage does not appear in the latest edition of *Government Accounting* (Treasury, 2000b). Where the term is still used, it takes the form of lower-case ‘white paper account’, defined in its glossary as ‘presented to Parliament and printed on white paper’. Nevertheless, the original term is still used by the National Audit Office (2000, p. 18) in the annual list of the accounts which it audits.

Determining the date of publication of White Paper accounts remains problematic: there is sometimes a considerable gap between the date on which a document was ‘ordered to

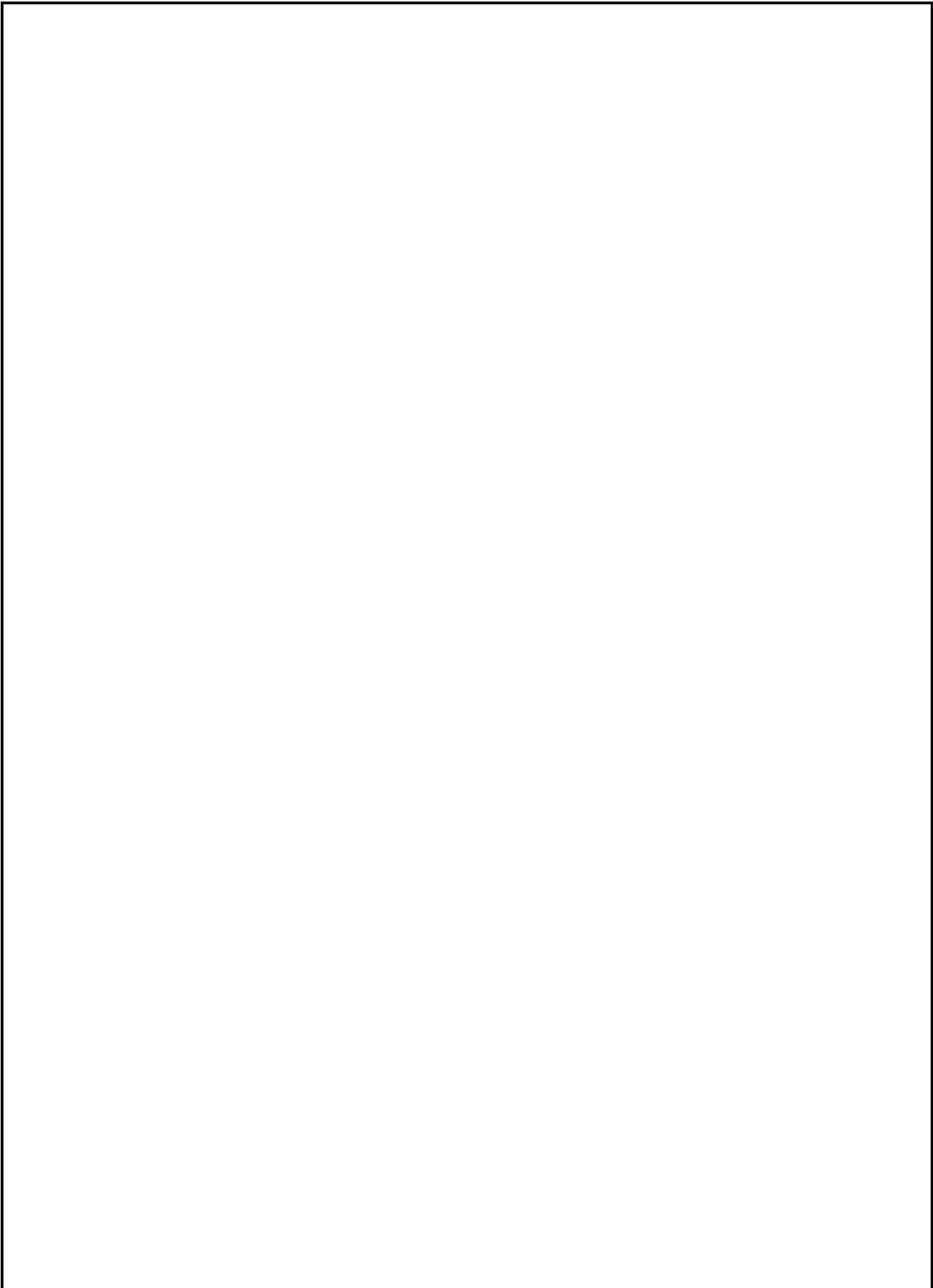
be printed' and the date of actual publication. For example, the 1997/98 accounts of the Royal Botanic Garden, Edinburgh (Comptroller and Auditor General, 1998b) were ordered to be printed on 27 July 1998, but carry a second date (28 September 1998) at the bottom right.

While Command Papers can be laid during a Parliamentary recess, HC Papers can only be laid on a sitting day. There was a practice whereby the Journal Office of the House of Commons would reluctantly accept HC Papers laid in dummy (i.e. just a title page), without the full document being available. As from 1993/94, the Journal Office is said to have stopped this practice. There are several examples in this study where White Paper accounts have been laid just before the July recess, but with publication clearly much later. Some of the gap between the two dates therefore seems attributable to the summer Parliamentary recess.⁶⁵ This typically runs from late July to late October, corresponding to reporting lags of just under 4.0 and just under 7.0 months. Where both dates are shown, it is the second date that The Stationery Office will quote as the date of actual publication.⁶⁶

Almost all bodies with White Paper accounts also publish their own report and accounts. These other documents are difficult to obtain for earlier years, as they are published by the body itself and not numbered in any series. The only central collection of such documents is as House of Commons Unprinted Papers (House of Commons Information Office, 2000b).

When an Executive NDPB is governed by chapter 9's auditing arrangements (ii) to (vi), there is no White Paper account but the report and accounts are formally presented to Parliament, almost always as an HC Paper. However, some documents are outside the two numbered series (Command Papers and HC Papers). First are 'Unprinted Papers' (UP), which are laid before Parliament but not ordered to be printed as HC Papers, though many of them are indeed published. Within the UP series, numbering about 2,000 per session, are some reports and accounts relevant to this study. Second are 'Unprinted Command Papers' (UC), numbering only about 15 to 20 per session; these are presented by Command but not printed in the Command Paper series and usually not printed by The Stationery Office. These unusual arrangements apply to the Scottish Sports Council: its annual report is categorised as UP and its annual accounts as UC. All items in the UP and UC series are public documents, though as a practical matter they remain rather inaccessible.⁶⁷

Naturally, devolution affects the publication arrangements for Scottish Executive Agencies and Executive NDPBs, though this is outside the scope of the present study.



11. Accounting issues and developments

The move to accruals has proceeded systematically in the case of Executive Agencies, and on a more staggered, piecemeal basis in the case of Executive NDPBs. In terms of where they were in 1997/98 (the final year of this study), there is not much difference. Accounting developments in Executive Agencies and Executive NDPBs can be characterised as the spread of accruals accounting inwards from non-core central government. In an important sense, this paved the way for the introduction of RAB in core central government.

The purpose of this chapter is to centralise discussion of certain technical accounting issues, placing them in the context of broader accounting developments. These are organised into six sections dealing with: Accounts Directions; the accounting treatment of grant-in-aid; the valuation and depreciation of fixed assets; issues concerning various kinds of consolidation; notional costs; and conformity with the requirements of SORP 2 that apply to those Executive NDPBs having charitable status for the whole, or part, of their activities. The length of discussion of each topic varies considerably, reflecting both differences in technical complexity and the extent to which the topic has already arisen in earlier sections.

11.1 ACCOUNTS DIRECTIONS

The most disturbing finding of this study concerns the role that Accounts Directions have sometimes played in undermining the financial reporting process. At the innocuous but irritating end of the spectrum, a failure to update the Accounts Direction for the Scottish Fisheries Protection Agency led to that body continuing to produce a Sources and Applications of Fund Statement (as required under SSAP 10) rather than a Cash Flow Statement (as required by FRS 1).⁶⁸

At the damaging end of the spectrum, Accounts Directions have sometimes been used by Scottish Office departments as a way of avoiding the implementation of certain accounting standards, or at least delaying that implementation. It is sometimes difficult to determine whether the root problem has been a lack of financial skills in the sponsoring department or if there has been cynicism about financial reporting. Several bodies are explicitly required by their statutes to follow 'best commercial accounting practice'. Moreover, a 'true and fair view' audit opinion is interpreted outside government to mean that accounts have been prepared in accordance with UK GAAP. Legitimate functions for Accounts Directions include specifying how an Executive Agency or Executive NDPB should account for transactions that do not have close parallels in the private sector, and restricting choice between alternative treatments allowed by UK GAAP in the interests of consistency across the public sector. These issues were particularly

important before the establishment in 1996 of the Financial Reporting Advisory Board (FRAB), which has brought a more systematic approach to the consideration of public/private differences. Sometimes, however, the effect of the Accounts Direction has been to relax the rigour of accounting standards, thereby exempting the body from compliance. It is sometimes possible to detect discomfort on the part of auditors, both private firms and the C&AG, when they have had to decide whether to qualify accounts that, though complying with the relevant Accounts Direction, are clearly in breach of UK GAAP. Given the failures of compliance, there have been fewer audit qualifications than might have been expected. Auditors have sometimes used coded language to signal their disapproval; it remains doubtful whether many users of these accounts have been able to decode these messages.

Furthermore, there has been a lack of uniformity in the extent to which Accounts Directions have been in the public domain. Some bodies have assiduously published their Accounts Directions in their annual accounts, though others have not. Some Accounts Directions have been frequently revised, and both their length and technical nature make it difficult and time-consuming to monitor what has changed.

11.2 ACCOUNTING TREATMENT OF GRANT-IN-AID

An unexpected issue concerns how grant-in-aid from government should be treated in the Income and Expenditure Account. The usual treatment is as income, as was done by, for example, the Scottish Tourist Board and the Royal Botanic Garden, Edinburgh throughout the study period. In contrast, Highlands and Islands Enterprise and Scottish Enterprise departed from this practice, always treating their grant-in-aid as a means of financing the operating deficit. No public explanation has been found for this treatment, which has never been commented upon by the C&AG, who audits all these bodies. This treatment may, however, be motivated by concerns on the part of the economic development bodies that their operational activities might be treated by the Inland Revenue as 'carrying out a trade', leading to the inclusion of grant-in-aid in the computation of their corporation tax charge.

11.3 VALUATION AND DEPRECIATION OF FIXED ASSETS

Predictably, asset valuation is a significant technical issue in the accounting of Executive Agencies and Executive NDPBs. First, attention is drawn to the disregard of SSAP 12 (ASC, 1977) by the Scottish Council for Educational Technology (SCET). Remarkably, the private sector auditor of SCET never qualified the accounts during the study period for

this fundamental breach of UK GAAP, which was not rectified until 1997/98.⁶⁹ Consequently, SCET makes no appearance in table 12.⁷⁰

Second, there is the question of whether assets are to be valued on the basis of historical cost or modified historical cost. This has been relatively straightforward in the case of Executive Agencies, whose Accounts Directions have required asset valuation on the basis of modified historical cost. In contrast, there has been considerable variation in practice among Executive NDPBs, but with the trend definitely towards modified historical cost.⁷¹ This has been resisted by CLGs, however, partly from omission (they may not have received an Accounts Direction) and partly from commission (they have claimed that they should follow the practice of other companies, which until FRS 15 (ASB, 1999) were able to circumvent ASB pressure to adopt modified historical cost).⁷² Some Executive NDPBs have included a note to the effect that the difference between historical and modified historical cost would not be material. Others have continued with historical cost and the auditors have not commented, beyond a reference in the audit certificate to the accounting basis on which the accounts have been prepared.

Third, the case of the National Galleries of Scotland (NGS) raises a number of important issues, some of which predictably originate from its cultural role as the guardian of heritage assets, but others which are straightforward accounting issues. The following exposition will be easier to follow if it is remembered that NGS has three kinds of asset: assets representing the buildings in which its collections are housed; assets representing modifications to those buildings paid for by NGS; and the collections themselves. The collections are not valued on the balance sheet and will not be discussed further; the issue of heritage assets has been extensively considered by FRAB (Financial Reporting Advisory Board, 2000). Ironically, it is the treatment of conventional fixed assets that has been problematic. Before 1997/98, the buildings in which its collections were housed were not valued on the balance sheet on the argument that title had not been transferred from the Secretary of State for Scotland. The 1997/98 accounts were prepared under a revised Accounts Direction issued on behalf of the Secretary of State for Scotland on 21 August 1998 (Comptroller and Auditor General, 1999, pp. 24–28). This required that the accounts should be prepared ‘... under the historical cost convention modified by the inclusion of ... fixed assets at their value to the business by reference to current costs’ (p. 25). This represents a straightforward move from historical cost to modified historical cost. The buildings were then brought on to the balance sheet, though the accounts note that the reassignment of title must await primary legislation. Exactly the same point applied to three other cultural bodies, the National Library of Scotland, the National Museums of Scotland and the Royal Botanic Garden, Edinburgh.

Fourth, SSAP 19 (ASC, 1981) is the accounting standard relating to the valuation of investment properties, developed with the commercial property sector in mind. As part of UK GAAP, however, it is applicable to public bodies that construct industrial estates and business parks in order to promote economic development. The only economic rationale for such public sector activity is market failure (the private sector would under-provide such facilities, perhaps because of the difficulties of internalising the benefit stream as revenues) or distributional considerations (the provision of such facilities in run-down urban areas or in geographically remote locations, though uneconomic, is viewed as socially desirable). Once the asset has been constructed, SSAP 19 requires it to be valued on the basis of the lower of gross replacement cost and net realisable value (itself the lower of future rents and disposal value). Consequently, the application of SSAP 19 would in relevant cases require a drastic writing-down of new assets, which would be charged through the Income and Expenditure Account. Such an effect can wrongly be interpreted as evidence of policy failure, even in cases of well-designed developments, and might also be seen to indicate the need for a higher grant-in-aid.⁷³ SSAP 19 took effect from financial statements relating to accounting periods starting on or after 1 July 1981. However, the accounting policies of Scottish Enterprise only changed subsequent to the publication of an amended SSAP 19 (ASB, 1994a), which took effect for accounting periods ending on or after 22 September 1994, though earlier adoption was encouraged. Unsurprisingly, this had a significant impact. There was never any qualification on this issue to the accounts of either Scottish Enterprise or Highlands and Islands Enterprise.⁷⁴

Fifth, a number of accounting issues come together in the case of the NTDCs, a set of organisations that were known, throughout the study period, to be approaching the end of their life cycle. Important issues arose concerning the valuation of assets, both in terms of their inherent characteristics (e.g. industrial estates, motivated by economic development objectives, and subsidised housing) and specific circumstances (e.g. the issuing of wind-up orders meant that assets had to be disposed of against tight timescales and this was likely to reduce net realisable value). In the period before wind-up, there were massive asset write-offs. In two cases, these exclusively related to housing: East Kilbride (£76.682 million in 1993/94)⁷⁵ and Irvine (£37.836 million in 1993/94,⁷⁶ £4.333 million in 1994/95, and £21.381 million in 1995/96). In the other three NTDCs, the write-offs related to both housing and other property assets. For example, the Glenrothes figures were £2.341 million in 1991/92; £4.511 million in 1992/93, none of which was housing; and £26.991 million in 1993/94, of which £13.555 million was housing. These were significant write-offs, taking place at a distance from the Scottish block, though clearly the wind-up process was tightly controlled by the Scottish Office.

11.4 CONSOLIDATION ISSUES

It is important to distinguish three different questions, though the answers are necessarily interconnected. The first, and the predominant one in the context of this study, relates to the definition of the reporting entity for the financial statements of Executive Agencies and Executive NDPBs. Notwithstanding the dubious use of Accounts Directions to avoid consolidation in the early 1990s, this is now an uncontroversial topic in relation to the study organisations.⁷⁷ UK GAAP, and in particular FRS 2 (ASB, 1992), prevails.

The second relates to the specification of the area of consolidation for Departmental Resource Accounts under RAB. With the agreement of FRAB, this question has been put on ice until RAB has been implemented (Heald and Georgiou, 2000). It could reasonably be argued, however, that FRAB did not have much alternative. Given Treasury decisions on this topic before FRAB was established (Heald and Georgiou, 1995), perhaps the only alternative available to FRAB was to hold up the transition to RAB.

The third concerns the coverage of a 'whole of government' account (Treasury, 1998b), with the Treasury having established a programme of implementation: a whole of government account on a national accounts basis (2001/02); a whole of central government account on an RAB basis (2002/03); and a whole of government account on an RAB basis (2005/06). It seems likely that national accounts aggregates will continue to dominate macro-fiscal policy. It is inevitable that there will be differences in coverage and treatment between RAB aggregates (whose measurement is specified by the Treasury) and national accounts aggregates (whose measurement is determined by internationally promulgated standards, sometimes themselves a compromise) (Eurostat, 1996). A complex reconciliation between such aggregates is inevitable. There are two specifically British issues, however, that will gain importance in the future.

One of these is the treatment of expenditure, funded by the National Lottery, which is within GGE (General Government Expenditure) but outside the Treasury's public expenditure control aggregates. This treatment originated in the refusal in June 1995 of the then Chancellor of the Exchequer (Kenneth Clarke) to allow growing Lottery-financed expenditure to affect his public expenditure plans.⁷⁸ This exclusion from the control aggregate has survived subsequent changes in the control framework in 1998 and 2000. During the study period, two Executive NDPBs acquired large-scale access to Lottery funds. As from 1994/95, the C&AG has audited separate White Paper 'Lottery accounts' for the Scottish Arts Council and the Scottish Sports Council. These funds, kept separate from the main accounts, which are funded by grant-in-aid, have begun to dwarf the conventional funding channel. At the programme level, Lottery funds provide a welcome

'pot of gold', allowing some ministers to bestow largesse and the Treasury to divert expenditure pressures. At the aggregate level, Lottery-financed expenditure has to be included in the reconciliation to GGE; in practice, this attracts little attention as it is swamped by technical accounting adjustments.

The other issue concerns assets financed by the PFI, the motivation of which is variously attributed to the search for increased efficiency in public service delivery or the evasion of notionally tight public expenditure control by recourse to off-balance sheet finance (Broadbent and Laughlin, 1999). This large topic is beyond the scope of this study, other than to note the potential implications for the financial reporting and control of the study organisations. The areas in which significant, large amounts of PFI uptake might be expected are mostly beyond the RAB and general government boundaries (see figure 2), in the quasi-public bodies (e.g. housing associations and Higher Education Institutions) funded by certain Executive NDPBs.

11.5 NOTIONAL COSTS

The issue of notional costs is interesting from two perspectives. First, the Treasury (1996a) guidance on Executive NDPB accounts has insisted on their charging certain notional costs in their Income and Expenditure accounts. Executive NDPBs are required by their Accounts Directions (where applicable) to follow this Treasury guidance. This is another example of how developments outside core central government can be viewed as precursors of RAB. By far the most significant item in notional costs relates to a notional capital charge on assets employed; the other items, for example in relation to notional insurance charges, are usually small. As these charges are notional, they tend to be reversed on the face of the Income and Expenditure account, making this more difficult to read. Second, there is remarkable diversity as to whether and, if so, how this guidance has been implemented.⁷⁹ The requirement to show notional costs is strongly resented by some Executive NDPBs, especially those constituted as CLGs, which often make no mention of notional costs in their accounts. In part, this reflects different perceptions as to whether Executive NDPB assets 'belong' to that body or form part of aggregate public assets over which the Treasury has legitimate domain.

11.6 SORP 2 AND EXECUTIVE NDPBS WITH CHARITABLE STATUS

Whereas none of the Executive Agencies has charitable status, a number of Executive NDPBs do. This produces some complications, as this subset of Executive NDPBs should

comply not only with public sector reporting requirements emanating from the Treasury, but also with regulations concerning financial reporting by charities. A further complication is the different system of legal regulation of charities in Scotland and Northern Ireland, meaning that the system for monitoring charity accounts, in which the Charity Commission for England and Wales plays a pivotal role, does not apply. The stated scope of SORP 2, however, is explicitly the United Kingdom and the Republic of Ireland.

Recent developments in charity accounting have been reviewed by Randall (1998). The stimulus to better financial reporting came from a highly critical report by the Public Accounts Committee (1988), which maintained the pressure for improvement subsequent to the publication of the original version of SORP 2 (ASC, 1988) by the Accounting Standards Committee. A revised and more prescriptive SORP 2 was published in October 1995 by the Charity Accounting Review Committee (1995). The ASB has approved the Charity Commission for England and Wales as a body able to issue SORPs, and approved the revised version of SORP 2 for publication. Although there was no recommended start date, the Charity Commission for England and Wales recommended adoption as soon as possible. In practice, for charities with a 31 March year-end, this was likely to mean 1995/96 (if the current accounting system was able to generate the necessary information), otherwise 1996/97.⁸⁰ The current legal requirements in England and Wales regarding charity accounts are contained in Part VI of the Charities Act 1993. There are exemptions from SORP 2 for those charities (e.g. housing associations and higher education institutions) for which specialised accounting regulations are in force, and for charities which take the form of friendly societies or industrial and provident societies. Significantly, SORP 2 extends to those charities which, as companies, must file annual accounts at Companies House. Randall (1998) notes that it is possible for a charity to produce a single annual report and accounts that satisfies both requirements. Of course, SORPs remain non-mandatory and compliance with SORP 2 is a matter of best practice and moral suasion, in which processes auditors may figure prominently.

The most significant new requirement contained in the revised SORP 2 is for a separate Statement of Financial Activities (SOFA), the purpose of which is explained in the following terms:

'A traditional income and expenditure account with the distinction between revenue and capital does not always fully explain all the charity's activities, whose primary purpose must be the provision of benefit to its beneficiaries rather than the corporate pursuit of gain for the benefit of shareholders. Furthermore, since charities often receive significant amounts of restricted income which can affect

the types and level of service they provide, it is important to consider changes in the amounts of all the resources of the charity. A single accounting statement is now proposed which will analyse all capital and income resources and expenditures and contain a reconciliation of all movements in the charity's funds. Such analysis will be provided by the Statement of Financial Activities, showing total movements on all funds with supporting analyses in the notes of the movements in individual funds.' Charity Accounting Review Committee (1995, para 69)

The implementation of the revised SORP 2 has been researched by Connolly and Hyndman (2000), whose empirical survey of large fund-raising charities records significant improvements in financial reporting, measured in terms of compliance with recommended practice, albeit with some time lag.

One distinctive feature of Executive NDPBs with charitable status is that they do not significantly depend on fund-raising. Their primary purpose for having charitable status is to take advantage of favourable taxation treatments, often as a means of reducing their costs. Logically, reduced taxation payments by Executive NDPBs will mean lower Exchequer revenues and, at least in principle, a lower capacity on the part of government to pay grant-in-aid to Executive NDPBs. The customary presumption, however, seems to be either that the amounts are *de minimis* to government, or that individual organisations ignore the corresponding reductions to the general pool of Exchequer revenues.

Table 4 identifies those Executive NDPBs which have charitable status, either for themselves or for part of their operation. Examination of the accounts of these bodies has identified the speed with which the requirement of the revised SORP 2 to produce a SOFA has been met. In 1995/96, SOFAs were produced by the National Galleries of Scotland, National Library of Scotland, National Museums of Scotland, Scottish Film Council and SHERT. In 1996/97, they were joined by the National Board for Nursing, Midwifery and Health Visiting in Scotland; Royal Botanic Garden, Edinburgh; Scottish Community Education Council; Scottish National War Memorial; and all the ABRIs except the Macaulay Land Use Research Institute. In 1997/98, all Executive NDPBs in the Scotland Programme, except for the following, produced SOFAs: Edinburgh New Town Conservation Committee; Scottish Further Education Unit; Scottish Sports Council; and the Scottish Qualifications Authority.⁸¹ Naturally, the on-Vote Royal Commission on the Ancient and Historical Monuments of Scotland, which produces only a financial summary, not full accounts, also had no SOFA.

12. Conclusions

Given the multiple focuses of this study (machinery of government, territorial management, auditing arrangements, accounting reform and financial control), it is useful to organise the summary of research findings on the same basis. Territorial management is taken first, as this has been shown to exert much influence in the Scottish case. This chapter draws together conclusions from the detailed empirical research on Scotland, making a series of modest, yet important, recommendations. Although there is no systematic evidence on this point, it would be surprising if many of these conclusions and recommendations did not have more general applicability across the United Kingdom.

12.1 ON TERRITORIAL MANAGEMENT

It is hardly an exaggeration to state that everything about public organisations and public expenditure in Scotland has a territorial dimension. One aspect is that almost all such bodies are funded from the Scotland Programme and those which are significant in expenditure terms are funded from within the formula-controlled Scottish block. A corollary is that Cabinet Office and Treasury control impacts less directly on Scottish bodies than would be the case for their English counterparts. Whereas the nature of the functions of Scottish Executive Agencies means that agencification is somewhat marginal to territorial management, that is certainly not the case when the canvas is expanded to include Executive NDPBs.

Four important issues thereby arise. First, on the reasonable assumption that the Scottish experience is at least echoed in Wales and Northern Ireland,⁸² there arises the question of how to co-ordinate the discharge of parallel functions across the United Kingdom. The four national boards for nursing, midwifery and health visiting are excellent historical examples, with a network of territorial Executive NDPBs working within a framework in which there is a UK peak body (United Kingdom Central Council for Nursing, Midwifery and Health Visiting). Traditionally, there have been varying levels of collaboration and integration, and this particular case is one of the messy edges of devolution.⁸³

Agencification has rendered more explicit than hitherto the extent to which the territorial management of the three smaller countries within the United Kingdom has resulted in specialised functions being split across 'duplicative' bodies. History, rather than conscious decisions about organisational design or rationale, has played a powerful role. Some of the continuing distinctiveness of the government of Scotland and Northern Ireland (possibly less so of Wales because of its closer integration into the English administrative system) revolves around sometimes idiosyncratic differences. For the pensions of public employees, Cabinet Office (1996b) lists NHS Pensions Agency

Conclusions (continued)

(Department of Health), SOPA (Scottish Office) and Teachers' Pensions Agency⁸⁴ (Department for Education and Employment). For the care of historic buildings, Cadw (Welsh Office), Historic Scotland (Scottish Office) and Historic Royal Palaces Agency (Department of National Heritage) are listed, as well as English Heritage, which is an Executive NDPB sponsored by the Department of National Heritage. Greater explicitness might lead to such arrangements being challenged, especially if fragmentation has resulted in small organisations of questionable viability.

Second, viewing matters in a pre-devolution light, the crucial issues in Scotland are less about the management of Executive Agencies and Executive NDPBs than about the sustainability of the system as a whole. Parry's (1987) interpretative essay on the evolution of the Scottish Office highlighted the mechanisms through which centralised control was established over erstwhile separate Scottish departments. Attention to the implications of 'long term shrinkage in the core' (Barberis, 1995, p. 103) is particularly apposite to territorial departments. The capabilities of the core Scottish Office may have been threatened by UK-wide downsizing initiatives such as Fundamental Expenditure Reviews, which in practice focused rather narrowly upon running costs. The protection of such capabilities is vital because of their importance both for Scottish Office/Treasury relationships and for the co-ordination of the network of organisations belonging to the Scotland Programme family. The streamlining of the Scottish Office might diminish its capacity to deal with Scotland differently, rather than just follow initiatives developed by the functional Whitehall department. Moreover, the maintenance of critical mass within a multi-functional territorial department urges caution about the extent to which fragmentation ought to be pursued. Without such a capacity to customise in either substance or presentation, the existing differentiated administration might well be challenged. There is therefore an additional territorial dimension to the 'hollowing out' of the state (Rhodes, 1994).

Third, and obviously related, is the issue of cost:

'A related problem is that of running government at arm's length in a small polity. It is a curiosity of British government that the non-English nations, with their richness of tradition and culture, are very small in population and economic terms (17 per cent of the population, 15 per cent of economic activity). They require a greater number of government institutions relative to population than does England, which causes problems of control and recruitment ... Implicit in most discussion about the Scottish Office is that it serves as one of the guardians of Scottish civil society; as David McCrone (1992, p. 23) puts it, "the expression of a complex network of social organisations".' Parry (1993, pp. 44-46)

There are obvious parallels in the continued 'illogically' separate Scottish organisation of professions such as accountants, actuaries, bankers, physicians and surgeons. The paradox is that individually insignificant differentiations (which may sometimes be costly in resource and/or functional effectiveness terms) have proved cumulatively significant, partly functioning as emblems of nationhood but also as genuine carriers of cultural and political distinctiveness (MacCormick, 1996). In a globalised economy and with more transparent public finances, however, the question of who bears these incremental costs of differentiation will naturally arise. There is, of course, a possible counter-argument. Some economists would contend that the incremental costs of 'duplication' might be negative, in that competition and emulation might increase productive efficiency relative to having a single body (Laffont and Martimort, 1999).

Fourth, this discussion emphasises the role that territoriality has played. However, some qualification is necessary because no agencies have been created out of activities that straddled UK departmental boundaries. Inertia originating in existing structural forms and the compartmentalisation of initiatives are probably also relevant to the question of why there has only been one case (Employment Service) of agencification affecting the department/NDPB boundary. Some of what has here been attributed to territoriality might be partly a function of particular forms of inertia.

12.2 ON MACHINERY OF GOVERNMENT

Most of the literature that has developed in response to Next Steps has been implicitly conceived in relation to functional departments. A reading of the public administration literature reveals a sharp polarisation between the reformers (mostly serving civil servants) and the academic public administrators who have monitored developments. The main objective of the former (Kemp, 1988) has been to 'sell' the policy, an imperative rendered more acute by scepticism in high places (e.g. on the part of Sir Robin Butler, Cabinet Secretary, 1988–97, and Nigel Lawson, Chancellor of the Exchequer, 1983–89). The views of the academic public administration community can reasonably be described as hostile: it is this group (Jordan, 1994) which has claimed that opportunities for accountability avoidance and blame deflection are inherent in the Next Steps programme. When viewed in relation to the Executive Agencies in the Scotland Programme, both the evangelical rhetoric supporting agencification and the academic criticism seem extravagant.

Two points raised by that literature have some resonance, however, one because it is relevant to Scotland and the other because its resolution in Scotland can readily be explained. First, the memoirs of Nigel Lawson contained an account of the evolution of

Conclusions (continued)

Next Steps that emphasised two issues – the potential in terms of preparing civil service activities for eventual privatisation and the potential threat to expenditure control:

'... it was clear that Ibbs [then the Head of the Prime Minister's Efficiency Unit] had not addressed either of the two principal problems involved in a change of this kind, however attractive the concept may have been. The first was the question of parliamentary accountability ... but even when this was solved there remained the second problem, that of maintaining effective control of the agencies' expenditure, in which Ibbs showed no interest ... a long battle ensued, resulting in a lengthy concordat negotiated by Peter Middleton on behalf of the Treasury and Robin Butler on behalf of Number 10 ... The main practical advantage I see is that by creating accounts, boards of directors and saleable assets, future privatisation may prove less difficult.' Lawson (1993, p. 393)

Lawson's observation that the Next Steps programme would facilitate future privatisation is highly relevant. Jordan (1994, p. 151) remarked how the 'advocates of radical change' (as those promoting agencification saw themselves) were 'out-radicalised' by the way in which the 'Competing for Quality' programme (Cabinet Office, 1996a) reinvigorated contracting out. There are obvious tensions between the rhetoric of Next Steps (letting agency chief executives manage) and central initiatives such as Competing for Quality (enforcing market-testing programmes).⁸⁵ Indeed, restructuring as an agency, especially late in the Next Steps programme, resolved comparatively little uncertainty about the future organisation of particular activities. In contrast to the UK position (Gay, 1997), the possibility of privatisation did not figure on the pre-devolution agenda in Scotland, Conservative ministers being highly sensitive to the charge of promoting a London agenda – though that might not always remain the case.

Second, the extent of the Treasury's nervousness about the potential threat to aggregate expenditure control has received considerable attention (Thain and Wright, 1995; Deakin and Parry, 2000). Given the nature of agencified activities in Scotland and the highly centralised management of public expenditure developed in support of the block arrangements, this danger seems remote.

Much of the literature about Executive NDPBs has a strong rhetorical element, whether the motive is to praise quangos or condemn them. The concerns of this study, however, have been narrower and more focused. Overall, the impression derived from this research is of untidiness and a certain disorder, rather than of any endemic structural problem. Executive NDPBs are a residual category, defined in a negative way, straddling the public/private boundary and taking a variety of legal forms on each side of that boundary. A body, already in a residual category, might then be banished from that category,

perhaps as a means of escaping from a 'quango count'. Sometimes, this leads to claims that already private bodies have been transferred to the private sector.

The new pressures brought to the public sector by the implementation of UK GAAP as the underlying basis for Resource Accounting and Budgeting will mean that the traditional untidiness is no longer acceptable. This may apply not only with regard to variations in the treatments of bodies classified as Executive NDPBs, but also with regard to government organisations in general. An obvious example concerns the implementation of RAB, which has involved individual DRAs for all non-ministerial government departments,⁸⁶ whereas most Executive NDPBs are outside the scope of the DRA of their sponsoring department. The adoption of private forms of financial reporting may have unexpectedly far-reaching consequences for the machinery of government, notably the need for greater precision about structures and consistency in accounting treatment.

In terms of research, there should be a more empirically oriented agenda for which an essential prerequisite is good documentation (Gay, 1994; 1996). In the past, academic work has sometimes echoed the predictable political knockabout on quangos, attitudes to which oscillate with incumbency and opposition. Self-evidently, quasi-government will not now go away. The financial reporting documents examined in this study constitute one of the principal vehicles of accountability. As academic accountants, the researchers view this focus as an antidote to the excessive preoccupation with the, albeit important, topics of appointments and patronage. Undertaking this research has forcefully brought home the point that the study organisations are so disparate in function and size that the closely related topics of performance and VFM can only be conducted at the level of the particular organisation. This focuses attention on the under-researched processes of the periodic Prior Options Reviews. Sometimes, however, normally politically invisible bodies can suddenly acquire massive political salience because of service delivery failure, highlighting the inevitable tension between ministerial responsibility and managerial accountability for performance (Winetrobe, 1997).⁸⁷

The reporting vehicles comprehensively analysed in the preceding pages demonstrate that accounting and control constitute the foundations on which information about organisational performance, broadly interpreted, is based. They are thus essential to accountability, but clearly far from being its entirety. The world of quasi-government has been extensively studied from the perspectives of political science (Hood, 1978; Hogwood, 1979; 1995; Parry, 1999) but has hitherto been relatively neglected from those of accounting.

12.3 ON AUDITING ARRANGEMENTS

Leaving aside the implications of devolution, there is an overwhelming need to revisit and rationalise the auditing arrangements for Executive NDPBs. As shown in chapter 9, the arrangements have been both chaotic and almost unintelligible to the outside observer. Moreover, it is likely that some of the research conclusions on Scotland are also relevant to the United Kingdom, perhaps even more relevant given that the Scottish landscape has now been transformed by the Public Finance and Accountability (Scotland) Act 2000.

First, the need for coherence and a reasonable degree of uniformity does not mean that the public auditor should have a monopoly of the audits of Executive Agencies and Executive NDPBs. Curiously, much of the Parliamentary debate during the passage of the Government Resources and Accounts Act 2000 revolved around the argument, advanced by senior Parliamentarians from all the major parties, that the C&AG should audit all public bodies. There is no reason why the audits of some public bodies should not be undertaken by professional accountancy firms. Nonetheless, letters of audit engagement have to be structured so that regularity and propriety issues are not neglected. A separate issue is that, when the NAO sub-contracts audits to the private sector, in cases where the C&AG will sign the audit certificate, it is desirable that the report and accounts are explicit about this arrangement.

Second, there should be a complete overhaul of the Accounts Direction system, as it is vulnerable to abuse. There is simply not enough public attention paid to the reports and accounts of Executive Agencies and Executive NDPBs to counter the temptation to evade 'onerous' requirements. Moreover, some Accounts Directions are frequently revised while others remain unchanged when circumstances indicate that updating is necessary. Some are published with the Accounts, others are not. On-Vote Executive Agencies are now subject to the Resource Accounting Manual, which should, in all but exceptional cases, obviate the need for a separate Accounts Direction. However, Executive Agencies with trading fund status and most Executive NDPBs remain outside the coverage of the Resource Accounting Manual. Fortunately, the FRAB's remit has now been extended to include Executive NDPBs, which should make it easier to take the further step of restricting Accounts Directions to the issuing of exceptional guidance.⁸⁸ The abuses of Accounts Directions identified in Scotland have now been remedied. One of the legacies, however, is that auditors concentrating on public sector audits in large accounting firms reputedly feel that their work commands little respect from their counterparts on private sector audits.

Third, the relationship between Executive NDPBs and their auditors is worth further investigation, particularly in the case of small Executive NDPBs. Some have become

excessively dependent on their external auditors for the functioning of their financial systems, raising the possibility that some small bodies could contract out their financial management. It seems possible that audit fees are too low, a tendency accentuated by audit tendering by small Executive NDPBs whose primary objective may be to reduce audit costs. This issue particularly arises in the case of Executive NDPBs constituted as CLGs. Despite their smallness, the financial reporting of such organisations should be exemplary, and there should be no evasion or avoidance of accounting standards. For example, they should not exploit the absence of a published Accounts Direction and the non-applicability of the Resource Accounting Manual to claim that, as CLGs, they have no obligation to prepare a SOFA in line with SORP 2. If meeting such exemplary standards is beyond the capacity of an Executive NDPB, or involves cost unreasonable in relation to total expenditure, the Executive NDPB should be contractorised or merged, or its tasks reallocated.⁸⁹

12.4 ON ACCOUNTING REFORM

Five main points are summarised here. First, accounting developments in Executive Agencies and Executive NDPBs undoubtedly eased the path for central government to switch to accruals. These precursors made the transition seem less strange and problematic than it would otherwise have seemed. Nevertheless, as shown in chapter 11, there were cases where the adoption of the forms of accruals-based accounting and financial reporting could give false reassurance. In some cases, the substance may have been less impressive, a feature not always picked up in the audit. The evidence for this could be found in sudden adjustments, as when there had been large revaluations or prior-year adjustments.

Second, the fieldwork suggested to the researchers that accounting and finance staff working in Executive Agencies and Executive NDPBs often lead an isolated existence, not least because many of these organisations are small. Internally, the extent to which these staff are integrated into managerial processes varies: in some cases, they are highly respected as financial advisers to management, but in others they are regarded as mere bookkeepers and overheads. Externally, they confront the problem that sponsoring divisions in central government do not always appreciate the importance of financial skills, and indeed may wish to deny their sponsored bodies direct access to the central finance division.⁹⁰ Even with larger NDPBs, there is the issue of whether they possess an adequate financial skills base and whether they are excessively vulnerable to the departure of key staff. This may be part of a more general issue, resulting from organisational fragmentation and the growth of quasi-government. There is a delicate balance to be struck between looking for safeguards over public money and respecting

Conclusions (continued)

organisational decentralisation. The fundamental purpose of accounting reform should be to set the context for better management, and this will not be achieved without addressing the staffing and career issues affecting accounting and finance staff.

Third, the situation with Executive Agencies is tidier and more creditable than that concerning Executive NDPBs. The central co-ordination of the Next Steps programme by the Cabinet Office has never been matched for Executive NDPBs, which have, of course, evolved over a much longer period. The historical effects concerning Executive NDPBs have been apparent throughout this report; this is a UK-wide phenomenon, not just a Scottish one. Some of the problems identified by this research have mainly affected relatively small and unimportant Executive NDPBs; the record of the larger ones is generally more creditable. Now that the Executive Agencies programme has reached full maturity,⁹¹ there is an obvious need to inject more uniformity into the system, removing the effects of accidents of timing upon accounting and auditing arrangements. The proposal in this Report to recast Accounts Directions on an exceptions basis will diminish the Treasury's workload associated with both updating and harmonisation.

Fourth, as clearly shown in table 11, the proliferation of reporting documents for Executive NDPBs confounds public understanding of channels of accountability. At the beginning of the research project, the inclination of the researchers was to recommend the abolition of White Paper accounts (presented to Parliament by the C&AG), in favour of a uniform system of reporting by the public body itself. However, it has become obvious that White Paper accounts bring certain advantages that would have to be compensated for in other ways. One advantage is that they are published as HC Papers, numbered consecutively for each session of Parliament. In consequence, they remain accessible, in certain libraries, long after publication. Ironically, another advantage is their rather boring format: the use of relatively large black type on white paper, without colouring or photographs, greatly improves readability. In contrast, some Repac documents published by individual bodies compress the accounts and notes onto a limited number of pages, using small fonts on coloured paper. Such documents are difficult to read and sometimes extremely difficult to acquire for earlier years.

Nevertheless, the researchers have developed a strong preference for Repac as the main vehicle for public accountability, provided that the problems of retrievability and readability are addressed.⁹² Unravelling the complexities of the financial reporting of Executive NDPBs has consumed a great deal of research time, as well as considerable space in this research report. While public bodies may understandably feel that no-one is interested in the financial reporting content of their annual reports, the practice of separating out the financial statements and notes into less accessible publications is highly regrettable. Moreover, the adoption of the form and substance of private sector

financial reporting means that the key data required for public accountability are increasingly going to be located in the notes rather than on the face of the financial statements. Timely publication is essential, not least to avoid the undesirable practice of publishing unaudited financial statements. Researchers are a small but potentially significant group of 'intermediate' users (Rutherford, 1992) who would find it easier to retrieve documents for previous years if they were published in a properly numbered series. Crucially, both audit and reporting lags should be kept to the minimum practical length, and reporting documents should carry the date of publication so that reporting lags can be reliably measured.

Fifth, the process of implementing Resource Accounting and Budgeting has formed the background to this research project. A couple of positive aspects are worthy of mention here. At the beginning of the RAB project, it was necessary to emphasise that the annual reports and accounts of Executive Agencies should continue to be published, as should the accounts of the parent department. This emphasis was necessary because of the Treasury's wording that parent and agency '*... may also each produce and publish their own annual report and accounts*' (Treasury, 1996b, p. 10, para 1.1, italics added). Another positive development is that, after initial scepticism, the Treasury (1998b) has recognised the importance of whole-of-government consolidation to a true picture of government finances. This has defused many of the concerns (Heald and Georgiou, 1995) about activities being deliberately configured just outside the boundary of departmental consolidation.⁹³

12.5 ON FINANCIAL CONTROL

The study organisations, which vary hugely in size and significance, score against public expenditure totals. Consequently, what they record as spending has significance for both the Treasury and their sponsoring departments. This is particularly the case in Scotland and the other territories, as a result of the operation of the formula-controlled blocks. Four issues are discussed here.

First, one reason why accounting practices matter is that they can affect how a particular organisation impacts on public expenditure aggregates. As central government moves from cash to accruals, the potential significance of these issues is enhanced. This is one facet of what some researchers have described as the 'accountingisation' of the public sector. Although this term, and the context in which it is often used, may sound malign, there is no need to accept this interpretation. The impacts of accounting change on financial control can be interpreted as part of the process through which government and public bodies become 'business-like but not like a business' (Gray, 1998). This is

Conclusions (continued)

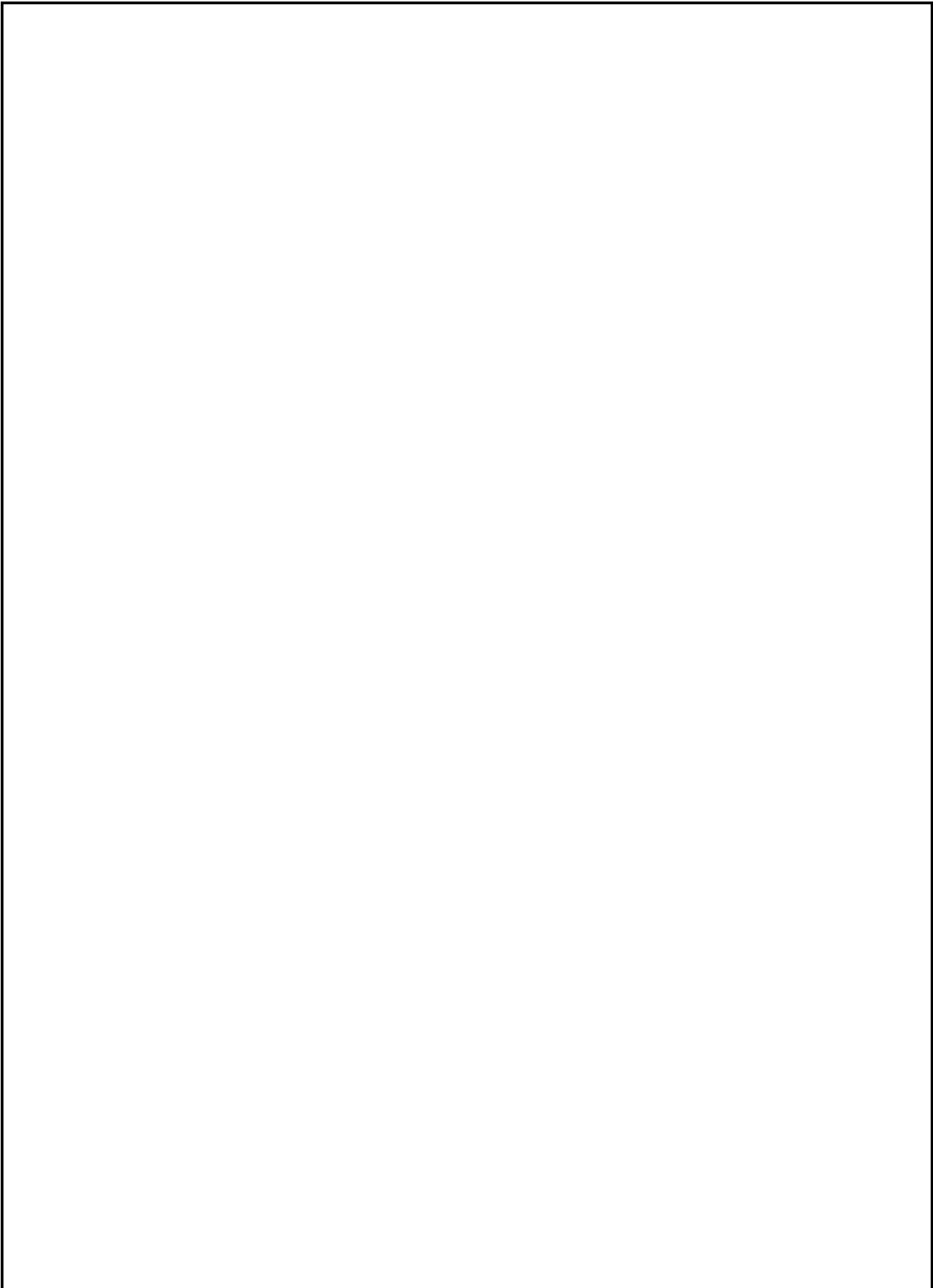
particularly the case when the fabric of government becomes more fragmented. As described in this research report, there are different ways in which particular Executive Agencies and Executive NDPBs are scored against public expenditure totals. Some of these are consciously chosen, others might best be seen as historical accidents. Occasionally, these may be the subject of significant change,⁹⁴ though the quantity and complexity of such organisations militate against this and indeed make it difficult to do the necessary maintenance to keep the system reasonably up to date. A significant issue arises when there is a considerable time lag between the date at which the funding of an organisation in a particular year is determined and the accounting practices applicable for the reporting of that year's financial performance. For example, a new accounting standard may be promulgated after the funding has been established, but scheduled for application in that year. Consequently, a tension arises between funding and accounting, sometimes 'resolved' by side-stepping the new accounting standards or by complex adjustments when reporting performance. Moreover, the adoption of mechanisms such as internal markets and purchaser/provider separation tends to lengthen the funding cycle.

Second, there is the customary delicate balance to strike regarding the tightness of financial control. There is a substantial literature supporting the view that tight control improves performance but that excessively tight control damages performance. Moreover, it is important to recognise that views about the rationality of any given system can crucially depend on where you are located in that system. For example, what seems in the Treasury to be rational and reasonable in terms of aggregate public expenditure control can seem irrational and demotivating for those who work in a public organisation with poor channels of communication to the centre but high levels of political and media exposure.

Third, aspects of the financial control system for quasi-government bodies, such as Executive Agencies and Executive NDPBs, are poorly documented, at least when 'looking in' from the perspective of academic researchers. It is more difficult to assess how well the systems of financial control are documented and understood within government, though the limited evidence available from the fieldwork suggests both gaps in knowledge and misunderstandings.⁹⁵ Some initiatives have initially been well documented (Treasury, 1989a), though there is often a failure to keep material up-to-date (a classic example is the accounting guide for trading organisations) (Treasury, 1989b). The dissemination of well-drafted and up-to-date documents is particularly important in the light of the isolated existence of the finance staff of quasi-government bodies and the encouraging practice of recruiting financial skills from outside government.

Fourth, financial control systems in the public sector encounter the longstanding but intensifying tension between clarity (now running strongly under the banner of 'fiscal

transparency’) and obfuscation. The study organisations are not as affected as certain other parts of the public sector, particularly regarding the additionality (or otherwise) of European Union funding, the treatment of Lottery money (Morgan and Bardgett, 1999), and recourse to the PFI. Undoubtedly, these are technical issues involving political dilemmas. Yet the biggest problem is the use of a language in which it can seem that nothing means what it appears to mean. Those who admire the cleverness of this language ought to pay more attention to the confusion and cynicism that are its predictable consequences.



Appropriation account

The end-of-year cash-based account that compares amounts authorised by Parliament in Supply Estimates with actual cash payments made and receipts brought to account and explains any substantial differences. One is prepared for each Vote.

Appropriations in aid

Money received by a department, which it is authorised to retain (rather than surrender to the Consolidated Fund) to offset related expenditure in the current financial year. Such receipts are voted by Parliament in the Estimates and accounted for in the annual appropriation account.

Central government

Comprises Parliament, government departments and the Northern Ireland departments, extra-departmental government funds (the largest of which is the National Insurance Fund) and a substantial number of other bodies that are financed by departments and are often wholly or partly financed from government funds, and that do not undertake commercial type activities as a major part of their work. In addition, the central government sector includes a small number of trading bodies, whose current expenditure is excluded from public expenditure but whose subsidies from central government are included in the control aggregate.

Consolidated Fund Extra Receipts (CFERs)

These are receipts realised or recovered by departments in the process of conducting services charged on public funds, which are not authorised to be appropriated in aid of expenditure. Examples include excess appropriations in aid.

Control Total

From 1993/94 to 1998/99, the Treasury focused upon this control aggregate, in order to deliver its objectives for the broader – but less directly controllable – GGE(X). The Control Total excludes cyclical social security, privatisation proceeds, central government debt interest and miscellaneous accounting adjustments.

Departmental Resource Account (DRA)

The accruals-based consolidated account for each department, prepared in conformity with the Resource Accounting Manual, scheduled to replace the appropriation account as from 2001/02.

Departmental running costs

The gross administrative costs of central government, including the pay of civil servants and all associated general administrative expenditure (including the costs of

accommodation, travel, training etc). Accruing superannuation costs for Civil Service staff under the Principal Civil Service Pension Scheme are included. Pensions in payment are excluded. Departmental running costs comprise the gross running costs of both gross and net controlled areas (including on-Vote Executive Agencies) but exclude the administrative costs of trading funds. Running costs related receipts arise from charging departments or outside bodies for activities whose costs fall within the scope of departmental running costs.

End-Year Flexibility (EYF)

The ability of a body to transfer underspendings from one year into the next year. The arrangements for this are often complex and have changed over time, albeit in the direction of greater flexibility (especially after the 1998 Comprehensive Spending Review).

External Financing Limit (EFL)

Cash limits imposed by the government on the external finance of public corporations. External finance consists of financial support (lending, subsidies and grants) from central government for nationalised industries, trading funds and other public corporations, and their borrowing from commercial sources, both in the United Kingdom and abroad (including the capital value of certain leases). Grants that are available to the private sector, such as grants for regional assistance, are not scored as external finance but are regarded as contributing to internal resources.

Executive Agencies

Launched in 1988 as the 'Next Steps' programme, much of central government activity is now conducted through Executive Agencies which are intended to have greater managerial autonomy. They are all self-accounting, and many have moved from cash to accruals in advance of their parent departments. Most are on-Vote (i.e. all their expenditure and income appears in the relevant Estimate line) but some have trading fund status (with only parts of their external financing from the department being voted). In the national accounts, trading funds are treated as public corporations.

General Fund

In a department's accounts the balance on the General Fund represents its total assets less liabilities to the extent that it is not represented by other reserves.

General government

The central government and local authorities sectors consolidated.

GGE(X)

General Government Expenditure (GGE) is drawn from the national accounts, which are prepared by the Office for National Statistics. As its macro-fiscal control target, however, the Treasury focused for some years on a variant, known as GGE(X). This is defined as: GGE + privatisation proceeds – general government interest and dividend receipts – lottery expenditure.

Grant-in-aid

A payment by a government department to finance all or part of the costs of the body in receipt of the grant-in-aid. This form of financing applies in circumstances where the government has decided, subject to the necessary Parliamentary controls, that the recipient body should operate at arm's length. Most bodies in receipt of grant-in-aid are NDPBs. The difference between grant-in-aid and grant is that the latter is only paid when the receiving body actually needs the money to make a transaction (such as to buy a particular painting). Terminology is often loose, however, with grant-in-aid being described in reports and accounts as grant.

Local authorities

Comprise elected local councils, police authorities, fire and civil defence authorities, residuary bodies, passenger transport executives and some other bodies controlled by councils jointly.

Non-Departmental Public Bodies (NDPBs)

A heterogeneous category of government organisations, which the Cabinet Office categorises into three types: Executive, Advisory and Tribunals.

Public corporations

Publicly owned trading bodies, usually statutory corporations, with a substantial degree of financial independence from central government and local authorities including the power to borrow and maintain reserves. They include nationalised industries, trading funds and other public corporations.

Public Expenditure Survey (PES)

The annual review of public expenditure plans, for three years ahead, which was conducted on broadly comparable lines from the 1960s. However, the incoming Labour Government in May 1997 abolished the 1997 and 1998 PES rounds, substituting instead the Comprehensive Spending Review which fixed the new control aggregates for three years ahead. The first resource-based Survey was conducted in 2000, for the years 2001/02, 2002/03 and 2003/04.

Resource accounting

The application of accruals accounting to central government; more specifically, the adoption of accounting standards as applicable to private sector companies, though subject to modifications devised by the Treasury in the light of particular circumstances in the central government sector.

Resource budgeting

Resource budgeting covers planning and controlling public expenditure on a resource accounting basis.

Supplementary Estimate

A Supplementary Estimate may cover, *inter alia*, further grant for an existing service, or a grant to cover the costs of providing a service newly imposed upon the government by statute. Supplementary Estimates are usually presented in May/June (Summer), November (Winter), and February/March (Spring).

Supply

Money voted by Parliament annually on the basis of departments' estimates of payments and receipts likely to arise in the year, to meet the cost of specified services. These Estimates are statements presented to the House of Commons of the estimated expenditure of departments, asking for the necessary funds to be voted. An individual Supply Estimate is called a Vote because of the procedure by which Parliament authorises expenditure. As from 2001/02, Supply will be voted on a resource basis.

Total Managed Expenditure

As from 1999/2000, there is a new control framework, albeit still on a cash basis. Total Managed Expenditure consists of Departmental Expenditure Limits (set firmly for three years ahead) and Annually Managed Expenditure (whose composition is still reviewed annually). As from 2001/02, these aggregates will be recast in both resource and financing requirement (mostly cash) terms.

UK Generally Accepted Accounting Practice (GAAP)

The accounting and disclosure requirements of the Companies Act 1985 and pronouncements by the Accounting Standards Board (principally accounting standards and Urgent Issues Task Force abstracts), supplemented by accumulated professional judgement.

Vote An individual Supply Estimate is called a Vote because of the procedure by which Parliament authorises expenditure.

Source: Scottish Office, 1999; Treasury, 1999c

Table 1

Table 1: Variation in the legal form and charitable status of Executive NDPBs

	With charitable status	Without charitable status
Statutory Body (established by specific statute)	Scottish Qualifications Authority	Highlands and Islands Enterprise
Statutory Body (established by Royal Charter)	Royal Botanic Garden, Edinburgh	Scottish Sports Council
Statutory Body (established by Royal Warrant)	Royal Commission on the Ancient and Historical Monuments of Scotland (since 27 April 1997)	Royal Commission on the Ancient and Historical Monuments of Scotland (until 26 April 1997)
Company Limited by Guarantee (established under the Companies Acts, with a statutory basis in a specific statute)	Scottish Vocational Education Council	
Company Limited by Guarantee (established under the Companies Acts, without a statutory basis)	Scottish Council for Educational Technology; also used for trading subsidiaries (e.g. Scottish Sports Council – Trust Company)	
Body established under the Industrial and Provident Societies Acts (without a statutory basis)	Animal Diseases Research Association (the parent of the Moredun Institute) until 30 June 1994 when it became the Moredun Foundation	
Trust (established under private law, with a statutory basis in a specific statute)	Scottish Hospital Endowments Research Trust	

Note

The above entries are illustrative only.



Table 2

Table 2: Executive Agencies within the Scotland Programme

Census month is April										Organisation	Date of birth	Relation to Scottish Office	Funding	Financial control system
90	91	92	93	94	95	96	97	98						
							✓	✓	Birth	Fisheries Research Services	01/04/97	Within	OV	GRC
	✓	✓	✓	✓	✓	✓	✓	✓	Birth	Historic Scotland	01/04/91	Within	OV	GRC
✓	✓	✓	✓	✓	✓	✓	✓	✓	Birth	Registers of Scotland	06/04/90	Outside	OV; TF from 01/04/96	GRC; EFL from 1996/97
		✓	✓	✓	✓	✓	✓	✓	Birth	Scottish Agricultural Science Agency	01/04/92	Within	OV	GRC
					✓	✓	✓	✓	Birth	Scottish Court Service	03/04/95	Outside	OV	GRC
✓	✓	✓	✓	✓	✓	✓	✓	✓	Birth	Scottish Fisheries Protection Agency	12/04/91	Within	OV	GRC
			✓	✓	✓	✓	✓	✓	Birth	Scottish Office Pensions Agency	01/04/93	Within	OV	GRC
			✓	✓	✓	✓	✓	✓	Birth	Scottish Prison Service	01/04/93	Within	OV	GRC
			✓	✓	✓	✓	✓	✓	Birth	Scottish Record Office	01/04/93	Outside	OV	GRC
				✓	✓	✓	✓	✓	Birth	Student Awards Agency for Scotland	05/04/94	Within	OV	GRC

Key

EFL = External Financing Limit

GRC = Gross Running Costs

TF = Trading Fund

OV = On-Vote

Note

Creation on any date in April in any year leads to inclusion in this list for that year.



Table 3

Table 3: Executive NDPBs within the Scotland Programme (listing by life cycle)

Census date is 1 April									Life cycle	Organisation	Category
90	91	92	93	94	95	96	97	98			
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Hannah Research Institute	ABRI
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Macaulay Land Use Research Institute	ABRI
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Moredun Research Institute	ABRI
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Rowett Research Institute	ABRI
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Scottish Crop Research Institute	ABRI
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	National Galleries of Scotland	CB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	National Library of Scotland	CB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	National Museums of Scotland	CB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Royal Botanic Garden, Edinburgh	CB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Royal Commission on the Ancient and Historical Monuments of Scotland	CB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Scottish Tourist Board	EDB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Scottish Homes	FB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Scottish Hospital Endowments Research Trust	FB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Scottish Legal Aid Board	FB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Scottish Sports Council	FB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Accounts Commission	SDRB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Crofters Commission	SDRB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Deer Commission for Scotland	SDRB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	National Board for Nursing, Midwifery and Health Visiting for Scotland	SDRB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Parole Board for Scotland	SDRB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Scottish Agricultural Wages Board	SDRB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Scottish Community Education Council	SDRB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Scottish Council for Educational Technology	SDRB
✓	✓	✓	✓	✓	✓	✓	✓	✓	Survivor	Scottish Medical Practices Committee	SDRB
				✓	✓	✓	✓	✓	Repatriation	Scottish Arts Council	FB
	✓								Repatriation & Death	Nature Conservancy Council for Scotland	SDRB

Table 3 (continued)

Census date is 1 April									Life cycle	Organisation	Category
90	91	92	93	94	95	96	97	98			
							✓	✓	Birth	Scottish Screen	CB
	✓	✓	✓	✓	✓	✓	✓	✓	Birth	Highlands and Islands Enterprise	EDB
	✓	✓	✓	✓	✓	✓	✓	✓	Birth	Scottish Enterprise	EDB
		✓	✓	✓	✓	✓	✓	✓	Birth	Scottish Higher Education Funding Council	FB
							✓	✓	Birth	Scottish Children's Reporter Administration	SDRB
				✓	✓	✓	✓	✓	Birth	Scottish Conveyancing and Executry Services Board	SDRB
							✓	✓	Birth	Scottish Environment Protection Agency	SDRB
				✓	✓	✓	✓	✓	Birth	Scottish Further Education Unit	SDRB
		✓	✓	✓	✓	✓	✓	✓	Birth	Scottish Natural Heritage	SDRB
							✓	✓	Birth	Scottish Qualifications Authority	SDRB
							✓	✓	Birth	Scottish Water and Sewerage Customers Council	SDRB
✓	✓	✓	✓	✓	✓	✓			Death	Scottish Film Council	CB
✓									Death	Highlands and Islands Development Board	EDB
✓									Death	Scottish Development Agency	EDB
✓	✓	✓	✓	✓	✓	✓			Death	Cumbernauld Development Corporation	NTDC
✓	✓	✓	✓	✓	✓				Death	East Kilbride Development Corporation	NTDC
✓	✓	✓	✓	✓	✓				Death	Glenrothes Development Corporation	NTDC
✓	✓	✓	✓	✓	✓	✓			Death	Irvine Development Corporation	NTDC
✓	✓	✓	✓	✓	✓	✓			Death	Livingston Development Corporation	NTDC
✓	✓	✓	✓	✓	✓				Death	Clyde River Purification Board	RPB
✓	✓	✓	✓	✓	✓				Death	Forth River Purification Board	RPB
✓	✓	✓	✓	✓	✓				Death	Highland River Purification Board	RPB
✓	✓	✓	✓	✓	✓				Death	North East River Purification Board	RPB
✓	✓	✓	✓	✓	✓				Death	Solway River Purification Board	RPB
✓	✓	✓	✓	✓	✓				Death	Tay River Purification Board	RPB
✓	✓	✓	✓	✓	✓				Death	Tweed River Purification Board	RPB
✓	✓								Death	Countryside Commission for Scotland	SDRB
✓	✓	✓	✓	✓	✓				Death	Police (Scotland) Examination Board	SDRB
✓	✓	✓	✓	✓	✓	✓			Death	Scottish Examination Board	SDRB
✓	✓	✓	✓	✓	✓	✓			Death	Scottish Vocational Education Council	SDRB

Table 3 (continued)

Census date is 1 April									Life cycle	Organisation	Category
90	91	92	93	94	95	96	97	98			
✓	✓	✓	✓	✓	✓	✓	✓		Expatriation	Scottish Seed Potato Development Council	SDRB
	✓	✓							Reclassification in & out	Scottish Council for Postgraduate Medical Education	FB
✓	✓	✓							Reclassification out	Craigie College of Education	CoE
✓	✓	✓							Reclassification out	Jordanhill College of Education	CoE
✓	✓	✓							Reclassification out	Moray House College of Education	CoE
✓	✓	✓							Reclassification out	Northern College of Education	CoE
✓	✓	✓							Reclassification out	St Andrew's College of Education	CoE
✓	✓	✓	✓	✓	✓				Reclassification out	Edinburgh New Town Conservation Committee	FB
✓	✓	✓	✓	✓					Reclassification out	General Teaching Council for Scotland	SDRB
✓									Reclassification out	Scottish Council for Research in Education	SDRB
✓	✓								Reclassification out	Scottish National War Memorial	SDRB

Note

For a list of abbreviations, see Table 6.



Table 4

Table 4: Executive NDPBs within the Scotland Programme (listing by category)

Category	Organisation	Life cycle	Legal status	Funding	Accounting basis in latest relevant year	Auditor	Audit arrangements
ABRI	Hannah Research Institute	Survivor	NS, CLG, C	GIA	Accruals	Private	Companies Act
ABRI	Macaulay Land Use Research Institute	Survivor	NS, CLG, C	GIA	Accruals	Private	Companies Act
ABRI	Moredun Research Institute	Survivor	NS, CLG, C	GIA	Accruals	Private	Companies Act
ABRI	Rowett Research Institute	Survivor	NS, CLG, C	GIA	Accruals	Private	Companies Act
ABRI	Scottish Crop Research Institute	Survivor	NS, CLG, C	GIA	Accruals	Private	Companies Act
CB	National Galleries of Scotland	Survivor	S, C	GIA	Accruals	C&AG	White Paper Account
CB	National Library of Scotland	Survivor	S, C	GIA	Accruals	C&AG	White Paper Account
CB	National Museums of Scotland	Survivor	S, C	GIA	Accruals	C&AG	White Paper Account
CB	Royal Botanic Garden, Edinburgh	Survivor	S, RC, C	GIA	Accruals	C&AG	White Paper Account
CB	Royal Commission on the AHM of Scotland	Survivor	S, RW, C	OV	Cash	C&AG	Appropriation Act
CB	Scottish Screen	Birth	NS, CLG, C	GIA	Accruals	Private	Companies Act
CB	Scottish Film Council	Death	NS, CLG, C	GIA	Accruals	Private	Companies Act
CoE	Craigie College of Education	Reclassification out			OSS		
CoE	Jordanhill College of Education	Reclassification out			OSS		
CoE	Moray House College of Education	Reclassification out			OSS		
CoE	Northern College of Education	Reclassification out			OSS		
CoE	St Andrew's College of Education	Reclassification out			OSS		
EDB	Scottish Tourist Board	Survivor	S	GIA	Accruals	C&AG	White Paper Account
EDB	Highlands and Islands Enterprise	Birth	S, PC	GIA	Accruals	C&AG	White Paper Account
EDB	Scottish Enterprise	Birth	S, PC	GIA	Accruals	C&AG	White Paper Account
EDB	Highlands and Islands Development Board	Death	S, PC	GIA	Accruals	C&AG	White Paper Account
EDB	Scottish Development Agency	Death	S, PC	GIA	Accruals	C&AG	White Paper Account
FB	Scottish Homes	Survivor	S, PC	GIA	Accruals	C&AG	White Paper Account
FB	Scottish Hospital Endowments Research Trust	Survivor	S, C	SF	Accruals	Private	Charities Accounts (Scotland) Regs. 1992
FB	Scottish Legal Aid Board	Survivor	S	GIA	Accruals	Private	Legal Aid (Scotland) Act 1986

Table 4 (continued)

Category	Organisation	Life cycle	Legal status	Funding	Accounting basis in latest relevant year	Auditor	Audit arrangements
FB	Scottish Sports Council	Survivor	RC, (C)	GIA	Accruals	C&AG	Non-Statutory Certification Audit
FB	Scottish Arts Council	Repatriation	S, RC	GIA	Accruals	C&AG	Non-Statutory Certification Audit
FB	Scottish Higher Education Funding Council	Birth	S	GIA	Accruals	C&AG	White Paper Account
FB	Scottish Council for Postgraduate Medical Education	Reclassification in & out	NS	OV	Cash	C&AG	Appropriation Act
FB	Edinburgh New Town Conservation Committee	Reclassification out	NS, C	GIA	Accruals	Private	Local Government (Scotland) Act 1973
NTDC	Cumbernauld Development Corporation	Death	S	GIA	Accruals	Private	New Towns (Scotland) Act 1968
NTDC	East Kilbride Development Corporation	Death	S	GIA	Accruals	Private	New Towns (Scotland) Act 1968
NTDC	Glenrothes Development Corporation	Death	S	GIA	Accruals	Private	New Towns (Scotland) Act 1968
NTDC	Irvine Development Corporation	Death	S	GIA	Accruals	Private	New Towns (Scotland) Act 1968
NTDC	Livingston Development Corporation	Death	S	GIA	Accruals	Private	New Towns (Scotland) Act 1968
RPB	Clyde River Purification Board	Death	S	LAP & S94	Financing	AC & Private	Local Government (Scotland) Act 1973
RPB	Forth River Purification Board	Death	S	LAP & S94	Financing	Private	Local Government (Scotland) Act 1973
RPB	Highland River Purification Board	Death	S	LAP & S94	Financing	AC & Private	Local Government (Scotland) Act 1973
RPB	North East River Purification Board	Death	S	LAP & S94	Accruals	AC	Local Government (Scotland) Act 1973
RPB	Solway River Purification Board	Death	S	LAP & S94	Financing	Private	Local Government (Scotland) Act 1973
RPB	Tay River Purification Board	Death	S	LAP & S94	Financing	AC & Private	Local Government (Scotland) Act 1973
RPB	Tweed River Purification Board	Death	S	LAP & S94	Financing	Private	Local Government (Scotland) Act 1973
SDRB	Accounts Commission for Scotland	Survivor	S	SF	Accruals	C&AG	White Paper Account
SDRB	Crofters Commission	Survivor	S	OV	Cash	C&AG	Appropriation Act
SDRB	Deer Commission for Scotland	Survivor	S	OV	Cash	C&AG	Appropriation Act
SDRB	National Board for Nursing Midwif. and HV for Scotland	Survivor	S	GIA	Accruals	C&AG	White Paper Account
SDRB	Parole Board for Scotland	Survivor	S	OV	Cash	C&AG	Appropriation Act
SDRB	Scottish Agricultural Wages Board	Survivor	S	OV	Cash	C&AG	Appropriation Act
SDRB	Scottish Community Education Council	Survivor	NS, CLG, C	GIA	Accruals	Private	Companies Act
SDRB	Scottish Council for Educational Technology	Survivor	NS, CLG, C	GIA	Accruals	Private	Companies Act
SDRB	Scottish Medical Practices Committee	Survivor	NS	OV	Cash	C&AG	Appropriation Act
SDRB	Nature Conservancy Council for Scotland	Repatriation & Death	S	GIA	Accruals	C&AG	White Paper Account

Table 4 (continued)

Category	Organisation	Life cycle	Legal status	Funding	Accounting basis in latest relevant year	Auditor	Audit arrangements
SDRB	Scottish Children's Reporter Administration	Birth	S	GIA	Accruals	C&AG	White Paper Account
SDRB	Scottish Conveyancing and Executry Services Board	Birth	S	GIA	Accruals	Private	Law Reform (Misc. Prov.) (Scotland) Act 1990
SDRB	Scottish Environment Protection Agency	Birth	S	GIA	Accruals	Private	Environment Act 1995
SDRB	Scottish Further Education Unit	Birth	NS, CLG, C	GIA	Accruals	Private	Companies Act
SDRB	Scottish Natural Heritage	Birth	S, C	GIA	Accruals	C&AG	White Paper Account
SDRB	Scottish Qualifications Authority	Birth	S, C	GIA	Accruals	C&AG	White Paper Account
SDRB	Scottish Water and Sewerage Customers Council	Birth	S	GIA	Accruals	C&AG/Private	No statutory reporting requirement
SDRB	Countryside Commission for Scotland	Death	S	GIA	Accruals	C&AG	White Paper Account
SDRB	Police (Scotland) Examination Board	Death	S	OV	Cash	C&AG	Appropriation Act
SDRB	Scottish Examination Board	Death	S, C	GIA	Accruals	Private	Education (Scotland) Act 1980
SDRB	Scottish Vocational Education Council	Death	S, CLG, C	GIA	Accruals	Private	Companies Act
SDRB	Scottish Seed Potato Development Council	Expatriation	S	SF	Accruals	Private	Scottish Seed Potato Development Council Order 1981
SDRB	General Teaching Council for Scotland	Reclassification out	S, C	SF	Accruals	Private	Charities Accounts (Scotland) Regs. 1992
SDRB	Scottish Council for Research in Education	Reclassification out	NS, CLG, C	GIA	Accruals	Private	Companies Act
SDRB	Scottish National War Memorial	Reclassification out	RC, C	SF	Accruals	Private	Charities Accounts (Scotland) Regs. 1992

Note

OSS means 'Outside Scope of Study'. For a list of other abbreviations, see Table 6.



Table 5

Table 5: Executive NDPBs within the Scotland Programme (alphabetical listing)

Category	Organisation	Life cycle	Legal status	Funding	Accounting basis in latest relevant year	Auditor	Audit arrangements
SDRB	Accounts Commission for Scotland	Survivor	S	SF	Accruals	C&AG	White Paper Account
RPB	Clyde River Purification Board	Death	S	LAP & S94	Financing	AC & Private	Local Government (Scotland) Act 1973
SDRB	Countryside Commission for Scotland	Death	S	GIA	Accruals	C&AG	White Paper Account
CoE	Craigie College of Education	Reclassification out			OSS		
SDRB	Crofters Commission	Survivor	S	OV	Cash	C&AG	Appropriation Act
NTDC	Cumbernauld Development Corporation	Death	S	GIA	Accruals	Private	New Towns (Scotland) Act 1968
SDRB	Deer Commission for Scotland	Survivor	S	OV	Cash	C&AG	Appropriation Act
NTDC	East Kilbride Development Corporation	Death	S	GIA	Accruals	Private	New Towns (Scotland) Act 1968
FB	Edinburgh New Town Conservation Committee	Reclassification out	NS, C	GIA	Accruals	Private	Local Government (Scotland) Act 1973
RPB	Forth River Purification Board	Death	S	LAP & S94	Financing	Private	Local Government (Scotland) Act 1973
SDRB	General Teaching Council for Scotland	Reclassification out	S, C	SF	Accruals	Private	Charities Accounts (Scotland) Regs. 1992
NTDC	Glenrothes Development Corporation	Death	S	GIA	Accruals	Private	New Towns (Scotland) Act 1968
ABRI	Hannah Research Institute	Survivor	NS, CLG, C	GIA	Accruals	Private	Companies Act
RPB	Highland River Purification Board	Death	S	LAP & S94	Financing	AC & Private	Local Government (Scotland) Act 1973
EDB	Highlands and Islands Development Board	Death	S, PC	GIA	Accruals	C&AG	White Paper Account
EDB	Highlands and Islands Enterprise	Birth	S, PC	GIA	Accruals	C&AG	White Paper Account
NTDC	Irvine Development Corporation	Death	S	GIA	Accruals	Private	New Towns (Scotland) Act 1968
CoE	Jordanhill College of Education	Reclassification out			OSS		
NTDC	Livingston Development Corporation	Death	S	GIA	Accruals	Private	New Towns (Scotland) Act 1968
ABRI	Macaulay Land Use Research Institute	Survivor	NS, CLG, C	GIA	Accruals	Private	Companies Act
CoE	Moray House College of Education	Reclassification out			OSS		
ABRI	Moredun Research Institute	Survivor	NS, CLG, C	GIA	Accruals	Private	Companies Act
SDRB	National Board for Nursing Midwif. and HV for Scotland	Survivor	S	GIA	Accruals	C&AG	White Paper Account
CB	National Galleries of Scotland	Survivor	S, C	GIA	Accruals	C&AG	White Paper Account
CB	National Library of Scotland	Survivor	S, C	GIA	Accruals	C&AG	White Paper Account
CB	National Museums of Scotland	Survivor	S, C	GIA	Accruals	C&AG	White Paper Account
SDRB	Nature Conservancy Council for Scotland	Repatriation & Death	S	GIA	Accruals	C&AG	White Paper Account
RPB	North East River Purification Board	Death	S	LAP & S94	Accruals	AC	Local Government (Scotland) Act 1973
CoE	Northern College of Education	Reclassification out			OSS		

Table 5 (continued)

Category	Organisation	Life cycle	Legal status	Funding	Accounting basis in latest relevant year	Auditor	Audit arrangements
SDRB	Parole Board for Scotland	Survivor	S	OV	Cash	C&AG	Appropriation Act
SDRB	Police (Scotland) Examination Board	Death	S	OV	Cash	C&AG	Appropriation Act
ABRI	Rowett Research Institute	Survivor	NS, CLG, C	GIA	Accruals	Private	Companies Act
CB	Royal Botanic Garden, Edinburgh	Survivor	S, RC, C	GIA	Accruals	C&AG	White Paper Account
CB	Royal Commission on the AHM of Scotland	Survivor	S, RW, C	OV	Cash	C&AG	Appropriation Act
SDRB	Scottish Agricultural Wages Board	Survivor	S	OV	Cash	C&AG	Appropriation Act
FB	Scottish Arts Council	Repatriated	S, RC	GIA	Accruals	C&AG	Non-Statutory Certification Audit
SDRB	Scottish Children's Reporter Administration	Birth	S	GIA	Accruals	C&AG	White Paper Account
SDRB	Scottish Community Education Council	Survivor	NS, CLG, C	GIA	Accruals	Private	Companies Act
SDRB	Scottish Conveyancing and Executry Services Board	Birth	S	GIA	Accruals	Private	Law Reform (Misc. Prov.) (Scotland) Act 1990
SDRB	Scottish Council for Educational Technology	Survivor	NS, CLG, C	GIA	Accruals	Private	Companies Act
FB	Scottish Council for Postgraduate Medical Education	Reclassification in & out	NS	OV	Cash	C&AG	Appropriation Act
SDRB	Scottish Council for Research in Education	Reclassification out	NS, CLG, C	GIA	Accruals	Private	Companies Act
ABRI	Scottish Crop Research Institute	Survivor	NS, CLG, C	GIA	Accruals	Private	Companies Act
EDB	Scottish Development Agency	Death	S, PC	GIA	Accruals	C&AG	White Paper Account
EDB	Scottish Enterprise	Birth	S, PC	GIA	Accruals	C&AG	White Paper Account
SDRB	Scottish Environment Protection Agency	Birth	S	GIA	Accruals	Private	Environment Act 1995
SDRB	Scottish Examination Board	Death	S, C	GIA	Accruals	Private	Education (Scotland) Act 1980
CB	Scottish Film Council	Death	NS, CLG, C	GIA	Accruals	Private	Companies Act
SDRB	Scottish Further Education Unit	Birth	NS, CLG, C	GIA	Accruals	Private	Companies Act
FB	Scottish Higher Education Funding Council	Birth	S	GIA	Accruals	C&AG	White Paper Account
FB	Scottish Homes	Survivor	S, PC	GIA	Accruals	C&AG	White Paper Account
FB	Scottish Hospital Endowments Research Trust	Survivor	S, C	SF	Accruals	Private	Charities Accounts (Scotland) Regs. 1992
FB	Scottish Legal Aid Board	Survivor	S	GIA	Accruals	Private	Legal Aid (Scotland) Act 1986
SDRB	Scottish Medical Practices Committee	Survivor	NS	OV	Cash	C&AG	Appropriation Act
SDRB	Scottish National War Memorial	Reclassification out	RC, C	SF	Accruals	Private	Charities Accounts (Scotland) Regs. 1992
SDRB	Scottish Natural Heritage	Birth	S, C	GIA	Accruals	C&AG	White Paper Account
SDRB	Scottish Qualifications Authority	Birth	S, C	GIA	Accruals	C&AG	White Paper Account
CB	Scottish Screen	Birth	NS, CLG, C	GIA	Accruals	Private	Companies Act

Table 5 (continued)

Category	Organisation	Life cycle	Legal status	Funding	Accounting basis in latest relevant year	Auditor	Audit arrangements
SDRB	Scottish Seed Potato Development Council	Expatriation	S	SF	Accruals	Private	Scottish Seed Potato Development Council Order 1981
FB	Scottish Sports Council	Survivor	RC, (C)	GIA	Accruals	C&AG	Non-Statutory Certification Audit
EDB	Scottish Tourist Board	Survivor	S	GIA	Accruals	C&AG	White Paper Account
SDRB	Scottish Vocational Education Council	Death	S, CLG, C	GIA	Accruals	Private	Companies Act
SDRB	Scottish Water and Sewerage Customers Council	Birth	S	GIA	Accruals	C&AG/Private	No statutory reporting requirement
RPB	Solway River Purification Board	Death	S	LAP & S94	Financing	Private	Local Government (Scotland) Act 1973
CoE	St Andrew's College of Education	Reclassification out			OSS		
RPB	Tay River Purification Board	Death	S	LAP & S94	Financing	AC & Private	Local Government (Scotland) Act 1973
RPB	Tweed River Purification Board	Death	S	LAP & S94	Financing	Private	Local Government (Scotland) Act 1973

Note

OSS means 'Outside Scope of Study'. For a list of other abbreviations, see Table 6.



Table 6

Table 6: Key for tables 3, 4 and 5

Key for category column:

ABRI = Agricultural & Biological Research Institutes

CB = Cultural Bodies

CoE = Colleges of Education

EDB = Economic Development Bodies

FB = Funding Bodies

NTDC = New Town Development Corporations

RPB = River Purification Boards

SDRB = Service Delivery and Regulatory Bodies

Key for funding column:

OV = On-Vote (usually the case for agencies, sometimes the case for NDPBs)

GIA = Grant-in-aid

SF = Self-financing from charges and reserves

LAP & S94 = Local authority precept and Section 94 capital allocations

Key for legal status column:

S = Statutory

NS = Non-statutory

RC = Royal Charter

RW = Royal Warrant

CLG = Company Limited by Guarantee

PC = Public Corporation (a status held by some large NDPBs)

C = Recognised as a charity

(C) = Part is recognised as a charity (this can be parent or trading subsidiary)

Key for auditor column:

AC = Accounts Commission for Scotland

C&AG = Comptroller and Auditor General



Table 7

Table 7: Audit lags for Executive Agencies within the Scotland Programme

Financial year ending in:	Date on audit certificate and audit lag in months								Summary statistics		
	1991	1992	1993	1994	1995	1996	1997	1998	Mean lag	Standard deviation of lag	Coefficient of variation of lag
Fisheries Research Services								No accruals accounts			
Historic Scotland		No accruals accounts	No accruals accounts	12/07/94 3.38	11/07/95 3.34	12/07/96 3.38	18/07/97 3.57	21/07/98 3.67	3.47	0.15	0.04
Registers of Scotland	No accruals accounts	No accruals accounts	08/07/93 3.25	07/07/94 3.21	11/07/95 3.34	04/07/96 3.11	11/07/97 3.34	10/07/98 3.31	3.26	0.09	0.03
Scottish Agricultural Science Agency			No accruals accounts	06/07/94 3.18	12/07/95 3.38	10/07/96 3.31	11/07/97 3.34	20/07/98 3.64	3.37	0.17	0.05
Scottish Court Service						unaudited	11/07/97 3.34	07/07/98 3.21	3.28	0.09	0.03
Scottish Fisheries Protection Agency		No accruals accounts	02/07/93 3.05	04/07/94 3.11	11/07/95 3.34	12/07/96 3.38	11/07/97 3.34	10/07/98 3.31	3.26	0.14	0.04
Scottish Office Pensions Agency				No accruals accounts	No accruals accounts	11/07/96 3.34	11/07/97 3.34	07/07/98 3.21	3.30	0.08	0.02
Scottish Prison Service				No accruals accounts	No accruals accounts	08/07/96 3.25	11/07/97 3.34	10/07/98 3.31	3.30	0.05	0.02
Scottish Record Office				No accruals accounts	No accruals accounts	No accruals accounts	No accruals accounts	No accruals accounts			
Student Awards Agency for Scotland					No accruals accounts	12/07/96 3.38	18/07/97 3.57	21/07/98 3.67	3.54	0.15	0.04
Mean lag			3.15	3.22	3.35	3.31	3.40	3.42	3.35	0.11	0.03
Standard deviation of lag			0.14	0.11	0.02	0.10	0.11	0.21			
Coefficient of variation of lag			0.04	0.03	0.00	0.03	0.03	0.06			

Note

The audit certificate for the Scottish Fisheries Protection Agency is on a 'present fairly' basis, as a consequence of an outdated Accounts Direction.



Table 8 (Part A)

Table 8: Audit lags for Executive NDPBs within the Scotland Programme

Part A: Audit lag data

		Date on audit certificate and audit lag in months								Mean lag	Standard deviation of lag	Coefficient of variation of lag
Organisation		1991	1992	1993	1994	1995	1996	1997	1998			
ABRI	Hannah Research Institute	27/08/91 4.89	27/08/92 4.89	08/06/93 2.26	23/06/94 2.75	24/08/95 4.79	03/07/96 3.08	29/07/97 3.93	08/07/98 3.25	3.73	1.04	0.28
ABRI	Macaulay Land Use Research Institute	2.00	02/07/92 3.05	07/07/93 3.21	02/08/94 4.07	15/09/95 5.51	09/09/96 5.31	05/08/97 4.16	06/08/98 4.20	3.94	1.17	0.30
ABRI	Moredun Research Institute	undated	undated	11/06/93 2.36	10/06/94 2.33	29/06/95 2.95	06/08/96 4.20	06/08/97 4.20	04/09/98 5.15	3.53	1.15	0.33
ABRI	Rowett Research Institute	27/06/91 2.89	26/06/92 2.85	22/06/93 2.72	01/07/94 3.02	26/06/95 2.85	05/07/96 3.15	30/06/97 2.98	22/06/98 2.72	2.90	0.15	0.05
ABRI	Scottish Crop Research Institute	28/08/91 4.92	26/08/92 4.85	27/10/93 6.89	26/10/94 6.85	26/07/95 3.84	07/08/96 4.23	30/07/97 3.97	28/07/98 3.90	4.93	1.26	0.26
CB	National Galleries of Scotland	17/12/91 8.56	11/12/92 8.36	14/12/93 8.46	02/11/94 7.08	28/11/95 7.93	20/11/96 7.67	31/10/97 7.02	12/10/98 6.39	7.68	0.79	0.10
CB	National Library of Scotland	17/12/91 8.56	11/12/92 8.36	14/12/93 8.46	21/11/94 7.70	20/10/95 6.66	14/11/96 7.48	11/08/97 4.36	07/08/98 4.23	6.98	1.77	0.25
CB	National Museums of Scotland	17/12/91 8.56	11/12/92 8.36	14/12/93 8.46	21/11/94 7.70	25/10/95 6.82	14/11/96 7.48	31/10/97 7.02	15/10/98 6.49	7.61	0.80	0.10
CB	Royal Botanical Garden, Edinburgh	17/12/91 8.56	08/01/93 9.28	10/01/94 9.34	02/11/94 7.08	dd/10/95 6.52	11/07/96 3.34	18/07/97 3.57	23/07/98 3.74	6.43	2.58	0.40
CB	Royal Commission on the Ancient and Historical Monuments of Scotland	OV	OV	OV	OV	OV	OV	OV	OV			
CB	Scottish Screen								07/07/98 3.21	3.21		
CB	Scottish Film Council	24/07/91 3.77	18/06/92 2.59	01/07/93 3.02	04/07/94 3.11	03/07/95 3.08	21/08/96 4.69	01/09/97 5.05		3.62	0.93	0.26

Table 8: Part A (continued)

Organisation	Date on audit certificate and audit lag in months									Mean lag	Standard deviation of lag	Coefficient of variation of lag
	1991	1992	1993	1994	1995	1996	1997	1998				
CoE	Craigie College of Education	OSS	OSS									
CoE	Jordanhill College of Education	OSS	OSS									
CoE	Moray House College of Education	OSS	OSS									
CoE	Northern College of Education	OSS	OSS									
CoE	St Andrew's College of Education	OSS	OSS									
EDB	Scottish Tourist Board	27/06/91 2.89	24/06/92 2.79	02/07/93 3.05	07/07/94 3.21	10/07/95 3.31	09/07/96 3.28	11/07/97 3.34	10/07/98 3.31	3.15	0.21	0.07
EDB	Highlands and Islands Enterprise		14/07/92 3.44	08/07/93 3.25	13/07/94 3.41	12/07/95 3.38	17/07/96 3.54	11/07/97 3.34	10/07/98 3.31	3.38	0.10	0.03
EDB	Scottish Enterprise		14/07/92 3.44	08/07/93 3.25	11/07/94 3.34	22/06/95 2.72	08/07/96 3.25	11/07/97 3.34	21/07/98 3.67	3.29	0.29	0.09
EDB	Highlands and Islands Development Board	02/01/92 9.08								9.08		
EDB	Scottish Development Agency	08/07/91 3.25								3.25		
FB	Edinburgh New Town Conservation Committee	29/07/91 3.93	26/08/92 4.85	02/03/94 11.02	04/10/94 6.13	24/11/95 7.80	22/10/96 6.72	16/09/97 5.54	02/09/98 5.08	6.39	2.22	0.35
FB	Scottish Arts Council					04/09/95 5.15	06/09/96 5.21	11/09/97 5.38	28/10/98 6.92	5.66	0.84	0.15
FB	Scottish Council for Postgraduate Medical Education		OV	OV								
FB	Scottish Higher Education Funding Council				12/07/94 3.38	07/07/95 3.21	04/07/96 3.11	11/07/97 3.34	09/07/98 3.28	3.27	0.11	0.03

Table 8: Part A (continued)

		Date on audit certificate and audit lag in months								Mean lag	Standard deviation of lag	Coefficient of variation of lag
Organisation		1991	1992	1993	1994	1995	1996	1997	1998			
FB	Scottish Homes	12/11/91	16/10/92	27/10/93	13/10/94	20/10/95	15/07/96	11/07/97	09/07/98	5.50	1.79	0.33
		7.41	6.52	6.89	6.43	6.66	3.48	3.34	3.28			
FB	Scottish Hospital Endowments Research Trust	18/10/91	16/10/92	22/10/93	04/11/94	27/10/95	25/10/96	31/10/97	30/10/98	2.84	0.22	0.08
		2.59	2.52	2.72	3.15	2.89	2.82	3.02	2.98			
FB	Scottish Legal Aid Board	12/07/91	20/07/92	12/07/93	08/07/94	07/07/95	27/06/96	18/06/97	19/06/98	3.12	0.38	0.12
		3.38	3.64	3.38	3.25	3.21	2.89	2.59	2.62			
FB	Scottish Sports Council	11/10/91	24/09/92	17/08/93	12/08/94	27/07/95	26/07/96	13/08/97	13/08/98	4.71	0.90	0.19
		6.36	5.80	4.56	4.39	3.87	3.84	4.43	4.43			
NTDC	Cumbernauld Development Corporation	11/06/91	09/06/92	08/06/93	14/06/94	13/06/95	11/06/96			2.36	0.07	0.03
		2.36	2.30	2.26	2.46	2.43	2.36					
NTDC	East Kilbride Development Corporation	20/06/91	25/06/92	17/06/93	15/06/94	15/06/95	12/03/96			2.56	0.16	0.06
		2.66	2.82	2.56	2.49	2.49	2.36					
NTDC	Glenrothes Development Corporation	dd/06/91	16/06/92	22/06/93	21/06/94	20/06/95	07/03/96			2.55	0.19	0.08
		2.49	2.52	2.72	2.69	2.66	2.20					
NTDC	Irvine Development Corporation	21/05/91	19/05/92	18/05/93	21/06/94	20/06/95	18/06/96	11/03/97		2.15	0.52	0.24
		1.67	1.61	1.57	2.69	2.66	2.59	2.30				
NTDC	Livingston Development Corporation	25/06/91	30/06/92	09/06/93	16/06/94	31/05/95	10/06/96	12/03/97		2.47	0.34	0.14
		2.82	2.98	2.30	2.52	2.00	2.33	2.33				
RPB	Clyde River Purification Board	14/11/91	07/12/92	09/02/94	07/02/95	31/10/95	12/02/97			8.96	1.56	0.17
		7.48	8.23	10.33	10.26	7.02	10.43					
RPB	Forth River Purification Board	26/11/91	20/11/92	dd/11/93	06/09/94	31/08/95	24/03/97			7.50	2.43	0.32
		7.87	7.67	7.51	5.21	5.02	11.74					
RPB	Highland River Purification Board	MD	24/06/92	04/11/93	23/12/94	27/11/95	07/04/97			7.76	3.38	0.44
			2.79	7.15	8.75	7.90	12.20					
RPB	North East River Purification Board	22/11/91	09/12/92	04/11/93	21/11/94	24/11/95	25/03/97			8.41	1.69	0.20
		7.74	8.30	7.15	7.70	7.80	11.77					

Table 8: Part A (continued)

Organisation	Date on audit certificate and audit lag in months									Mean lag	Standard deviation of lag	Coefficient of variation of lag
	1991	1992	1993	1994	1995	1996	1997	1998				
RPB Solway River Purification Board	undated	26/07/93	11/10/93	MD	23/10/95	24/05/96						
		15.80	6.36		6.75	1.77				7.67	5.87	0.77
RPB Tay River Purification Board	02/10/91	25/11/92	30/11/93	19/10/94	11/12/95	05/03/97						
	6.07	7.84	8.00	6.62	8.36	11.11				8.00	1.76	0.22
RPB Tweed River Purification Board	MD	25/11/92	MD	15/02/95	30/04/96	11/12/96						
		7.84		10.52	12.98	8.36				9.93	2.35	0.24
SDRB Accounts Commission	17/07/91	08/07/92	06/07/93	11/07/94	12/07/95	12/07/96	11/07/97	13/03/98				
	3.54	3.25	3.18	3.34	3.38	3.38	3.34	5.59		3.63	0.80	0.22
SDRB Countryside Commission for Scotland	17/12/91	26/11/92										
	8.56	7.87								8.21		
SDRB Crofters Commission	OV	OV	OV	OV	OV	OV	OV	OV				
SDRB Deer Commission for Scotland	OV	OV	OV	OV	OV	OV	OV	OV				
SDRB General Teaching Council for Scotland	01/07/91	21/08/92	29/07/93	06/09/94								
	3.02	4.69	3.93	5.21						4.21	0.95	0.23
SDRB National Board for Nursing Midwifery and Health Visiting for Scotland	02/07/92	09/12/92	21/03/94	10/11/94	31/08/95	10/09/96	10/12/97	17/12/98				
	15.05	8.30	11.64	7.34	5.02	5.34	8.33	8.56		8.70	3.29	0.38
SDRB Nature Conservancy Council for Scotland		08/01/93										
		9.28								9.28		
SDRB Parole Board for Scotland	OV	OV	OV	OV	OV	OV	OV	OV				
SDRB Police (Scotland) Examination Board	OV	OV	OV	OV	OV	OV						
SDRB Scottish Agricultural Wages Board	OV	OV	OV	OV	OV	OV	OV	OV				
SDRB Scottish Children's Reporter Administration							07/11/97	27/11/98				
							7.25	7.90		7.57	0.46	0.06

Table 8: Part A (continued)

Organisation	Date on audit certificate and audit lag in months									Mean lag	Standard deviation of lag	Coefficient of variation of lag
	1991	1992	1993	1994	1995	1996	1997	1998				
SDRB Scottish Community Education Council	14/06/91 2.46	19/06/92 2.62	25/06/93 2.82	17/06/94 2.56	16/06/95 2.52	20/10/96 6.66	19/10/97 6.62	04/09/98 5.15		3.93	1.89	0.48
SDRB Scottish Conveyancing and Executry Services Board		12/06/92 2.39	09/07/93 3.28	31/08/94 5.02	11/07/95 3.34	24/07/96 3.77	18/10/97 6.59	18/06/98 2.59		3.85	1.48	0.38
SDRB Scottish Council for Educational Technology	03/10/91 6.10	undated	undated	21/09/94 5.70	20/09/95 5.67	18/09/96 5.61	16/09/97 5.54	29/09/98 5.97		5.77	0.22	0.04
SDRB Scottish Council for Research in Education	12/06/91 2.39									2.39		
SDRB Scottish Environment Protection Agency							11/11/97 7.38	08/09/98 5.28		6.33	1.48	0.23
SDRB Scottish Examination Board	28/02/91 1.93	09/03/92 2.26	09/03/93 2.23	03/03/94 2.03	02/03/95 2.00	07/03/96 2.20	06/03/97 2.13			2.11	0.13	0.06
SDRB Scottish Further Education Unit				10/11/94 7.34	08/11/95 7.28	01/10/96 6.03	22/09/97 5.74	29/09/98 5.97		6.47	0.77	0.12
SDRB Scottish Medical Practices Committee	OV	OV	OV	OV	OV	OV	OV	OV	OV			
SDRB Scottish National War Memorial	20/11/91 7.67	29/10/92 6.95								7.31		
SDRB Scottish Natural Heritage			21/12/93 8.69	15/12/94 8.49	15/12/95 8.49	16/12/96 8.52	11/12/97 8.36	16/11/98 7.54		8.35	0.41	0.05
SDRB Scottish Qualifications Authority								16/10/98 6.52		6.52		
SDRB Scottish Seed Potato Development Council	undated	20/05/92 4.62	01/04/93 2.98	20/04/94 3.61	10/05/95 4.26	undated	05/06/97 1.18			3.33	1.36	0.41
SDRB Scottish Vocational Education Council	MD	24/09/92 5.80	23/09/93 5.77	15/09/94 5.51	28/09/95 5.93	26/09/96 5.87	25/09/97 5.84			5.79	0.15	0.03
SDRB Scottish Water and Sewerage Customers Council							18/07/97 3.57	05/06/98 2.16		2.87	1.00	0.35



Table 8: Part B

Part B: Statistical summary

		1991	1992	1993	1994	1995	1996	1997	1998	Statistics
ABRI	Mean lag	3.67	3.91	3.49	3.80	3.99	3.99	3.85	3.84	3.82
	Standard deviation of lag	1.47	1.11	1.94	1.82	1.16	0.92	0.50	0.93	1.23
	Coefficient of variation of lag	0.40	0.28	0.55	0.48	0.29	0.23	0.13	0.24	0.32
	Number of valid observations	4	4	5	5	5	5	5	5	38
CB	Mean Lag	7.60	7.39	7.55	6.54	6.20	6.13	5.40	4.81	6.45
	Standard deviation of lag	2.14	2.71	2.56	1.94	1.83	1.99	1.56	1.53	2.03
	Coefficient of variation of lag	0.28	0.37	0.34	0.30	0.30	0.32	0.29	0.32	0.32
	Number of valid observations	5	5	5	5	5	5	5	5	40
EDB	Mean Lag	5.07	3.22	3.18	3.32	3.14	3.36	3.34	3.43	3.51
	Standard deviation of lag	3.48	0.38	0.11	0.10	0.36	0.16	0.00	0.21	0.60
	Coefficient of variation of lag	0.69	0.12	0.04	0.03	0.12	0.05	0.00	0.06	0.17
	Number of valid observations	3	3	3	3	3	3	3	3	24
FB	Mean Lag	4.73	4.67	5.71	4.45	4.68	4.01	3.95	4.08	4.50
	Standard deviation of lag	2.05	1.61	3.36	1.49	1.92	1.45	1.17	1.52	1.42
	Coefficient of variation of lag	0.43	0.35	0.59	0.33	0.41	0.36	0.30	0.37	0.32
	Number of valid observations	5	5	5	6	7	7	7	7	49
NTDC	Mean Lag	2.40	2.45	2.28	2.57	2.45	2.37	2.31		2.41
	Standard deviation of lag	0.44	0.54	0.44	0.11	0.27	0.14	0.02		0.30
	Coefficient of variation of lag	0.18	0.22	0.19	0.04	0.11	0.06	0.01		0.13
	Number of valid observations	5	5	5	5	5	5	2		32
RPB	Mean Lag	7.29	8.35	7.75	8.18	7.98	9.63			8.28
	Standard deviation of lag	0.83	3.82	1.37	2.08	2.46	3.69			2.54
	Coefficient of variation of lag	0.11	0.46	0.18	0.25	0.31	0.38			0.31
	Number of valid observations	4	7	6	6	7	7			37

Table 8: Part B (continued)

		1991	1992	1993	1994	1995	1996	1997	1998	Statistics
SDRB	Mean lag	5.64	5.28	4.95	5.11	4.79	5.26	5.53	5.75	5.61
	Standard deviation of lag	4.29	2.54	3.20	2.08	2.09	1.90	2.30	2.00	2.28
	Coefficient of variation of lag	0.76	0.48	0.65	0.41	0.44	0.36	0.42	0.35	0.41
	Number of valid observations	9	11	9	11	10	9	13	11	83
ALL	Mean lag	5.24	5.36	5.15	5.04	4.98	5.25	4.58	4.69	5.05
	Standard deviation of lag	2.33	2.11	2.08	1.56	1.64	1.68	1.39	1.47	1.78
	Coefficient of variation of lag	0.44	0.39	0.40	0.31	0.33	0.32	0.30	0.31	0.35
	Number of valid observations	35	40	38	41	42	41	35	31	303

Key

OSS = Outside scope of study

MD = Missing data

OV = On-Vote

Shaded Dates = Qualified accounts

Table 9

Table 9: Classifying reporting documents and distinguishing reporting styles

Part A: Document classification

Type\Contents	Report for the year	Principal financial statements	Detailed notes to the accounts	Auditor's report and audit certificate
Wpac	✓	✓	✓	✓
Repac	✓	✓	✓	✓
Sepac	✗	✓	✓	✓
Repfh	✓	✓	✗	Not tested
Cashac	✗	✗	✗	Not tested
Rep	✓	✗	✗	✗

Part B: Taxonomy of reporting styles

Reporting style	Documents
1	Wpac + Repac
2	Wpac + Repfh
3	Wpac + Rep
4	Wpac
5	Repac
6	Repac + Sepac
7	Repac + Rep
8	Sepac + Repfh
9	Sepac + Rep
10	Sepac
11	Rep
12	Cashac + Rep



Table 10

Table 10: Style of reporting documents for Executive Agencies within the Scotland Programme

Financial year ending at 31 March:	1991	1992	1993	1994	1995	1996	1997	1998
Fisheries Research Services								Rep
Historic Scotland		Rep	Rep	Repac	Repac	Repac	Repac	Repac
Registers of Scotland	Rep	Rep	Repac	Repac	Repac	Repac	Repac	Repac
Scottish Agricultural Science Agency			Rep	Repac	Repac	Repac	Repac	Repac
Scottish Court Service						(Repac)	Repac	Repac
Scottish Fisheries Protection Agency		Rep	Repac	Repac	Repac	Repac	Repac	Repac
Scottish Office Pensions Agency				Rep	Rep	Repac	Repac	Repac
Scottish Prison Service				Rep	Rep	Repac	Repac	Repac
Scottish Record Office				Cashac + Rep	Cashac + Rep	Cashac + Rep	Cashac + Rep	Cashac + Rep
Student Awards Agency for Scotland					(Repac)	Repac	Repac	Repac

Notes

- (1) Blank cells indicate that the Executive Agency did not exist in that financial year.
- (2) A bracket around an entry indicates that accruals accounts were unaudited in a transitional year.
- (3) The C&AG is the auditor for all Executive Agencies.
- (4) All the above documents were published as House of Commons Papers with a sessional number.
- (5) Before they became Executive Agencies, the Scottish Prison Service and the Scottish Record Office both published annual reports, as did the predecessor organisation to the Scottish Agricultural Science Agency.



Table 11

Table 11: Style of reporting documents for Executive NDPBs within the Scotland Programme

Organisation	1991	1992	1993	1994	1995	1996	1997	1998
ABRI Hannah Research Institute	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep
ABRI Macaulay Land Use Research Institute	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep
ABRI Moredun Research Institute	Repac + Rep(2)	Repac	Repac + Rep(2)	Repac	Sepac + Rep(2)	Sepac	Sepac + Rep(2)	Sepac + Rep
ABRI Rowett Research Institute	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac	Sepac + Rep
ABRI Scottish Crop Research Institute	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep
CB National Galleries of Scotland	Wpac	Wpac	Wpac + Rep(3)	Wpac	Wpac	Wpac	Wpac + Rep(3.25)	Wpac
CB National Library of Scotland	Wpac + Rep	Wpac + Rep	Wpac + Rep	Wpac + Rep	Wpac + Rep	Wpac + Rep	Wpac + Rep	Wpac + Rep
CB National Museums of Scotland	Wpac + Rep	Wpac + Rep	Wpac + Rep	Wpac + Rep	Wpac + Rep	Wpac + Rep	Wpac + Rep	Wpac + Rep
CB Royal Botanic Garden, Edinburgh	Wpac + Rep(5)	Wpac	Wpac	Wpac + Rep(3)	Wpac + Rep	Wpac + Repfh	Wpac + Repfh	Wpac + Repfh
CB Royal Commission on the AHM of Scotland	Rep	Rep	Rep	Rep	Rep	Rep	Rep	Rep
CB Scottish Film Council	Sepac	Sepac + Rep	Sepac + Rep	Sepac + Rep	Repac	Repac + Sepac	Sepac	
CB Scottish Screen								Repac
CoE Craigie College of Education	OSS	OSS						
CoE Jordanhill College of Education	OSS	OSS						
CoE Moray House College of Education	OSS	OSS						
CoE Northern College of Education	OSS	OSS						
CoE St Andrew's College of Education	OSS	OSS						
EDB Highlands and Islands Development Board	Wpac + Rep							
EDB Highlands and Islands Enterprise		Wpac + Repac	Wpac+Repac+Sepac	Wpac+Repac+Sepac	Wpac+Repac+Sepac	Wpac+Repac+Sepac	Wpac+Repac+Sepac	Wpac + Repac
EDB Scottish Development Agency	Wpac + Repac							
EDB Scottish Enterprise		Wpac + Repac	Wpac+Sepac+Rep	Wpac+Sepac+Rep	Wpac+Sepac+Rep	Wpac+Sepac+Rep	Wpac+Sepac+Rep	Wpac+Sepac+Rep
EDB Scottish Tourist Board	Wpac + Repac	Wpac + Repac	Wpac + Repac	Wpac + Repac	Wpac + Repac	Wpac + Repac	Wpac + Repac	Wpac + Repac
FB Edinburgh New Town Conservation Committee	Repac	Repac	Repac	Repac	Repac	Repac	Repac	Repac
FB Scottish Arts Council					Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep
FB Scottish Council for Postgraduate Medical Education	NRP	NRP						
FB Scottish Higher Education Funding Council				Wpac + Repac	Wpac + Repac	Wpac + Repac	Wpac + Repac	Wpac + Repac

Table 11 (continued)

Organisation	1991	1992	1993	1994	1995	1996	1997	1998
FB Scottish Homes	Wpac + Repac	Wpac + Repac	Wpac+Sepac+Rep	Wpac+Sepac+Rep	Wpac+Sepac+Rep	Wpac+Sepac+Rep	Wpac+Sepac+Rep	Wpac+Sepac+Rep
FB Scottish Hospital Endowments Research Trust	Repac	Repac	Repac	Repac	Repac	Repac	Repac	Repac
FB Scottish Legal Aid Board	Repac	Repac	Repac	Repac	Repac	Repac	Repac	Repac
FB Scottish Sports Council	Repac	Repac	Sepac + Repfh	Sepac + Repfh	Sepac + Repfh	Sepac + Repfh	Sepac + Repfh	Sepac + Repfh
NTDC Cumbernauld Development Corporation	Repac	Repac	Sepac + Rep	Repac	Repac	Repac		
NTDC East Kilbride Development Corporation	Repac + Rep	Repac	Repac	Repac	Repac	Repac		
NTDC Glenrothes Development Corporation	Repac	Repac	Repac	Repac	Repac	Repac		
NTDC Irvine Development Corporation	Repac	Repac	Repac	Repac	Repac	Repac	Repac	
NTDC Livingston Development Corporation	Repac + Rep	Sepac + Rep	Repac + Rep	Repac + Rep	Repac	Repac	Repac	
RPB Clyde River Purification Board	Sepac + Repfh	Repac + Sepac	Sepac + Repfh	Sepac + Repfh	Repac + Sepac	Repac + Sepac		
RPB Forth River Purification Board	Sepac + Rep	Repac	Repac	Sepac + MD	Sepac + MD	Repac + Sepac		
RPB Highland River Purification Board	MD + Rep	Repac + Sepac	Repac + Sepac	Repac + Sepac	Repac + Sepac	Repac + Sepac		
RPB North East River Purification Board	Sepac + Rep	Sepac + Repfh	Repac	Repac	Repac	Repac		
RPB Solway River Purification Board	Sepac + Rep	Sepac + Repfh	Sepac + MD	Repac + MD	Repac + Sepac	Repac + Sepac		
RPB Tay River Purification Board	Sepac + Rep	Repac	Repac	Repac	Repac	Repac		
RPB Tweed River Purification Board	MD + Rep	Sepac + Repfh	MD + Repfh	Sepac + Repfh	Sepac + Repfh	Repac + Sepac		
SDRB Accounts Commission	Wpac + Repac	Wpac + Repac	Wpac + Repac	Wpac + Repac	Wpac + Repac	Wpac + Rep	Wpac + Rep	Wpac + Rep
SDRB Countryside Commission for Scotland	Wpac + Rep	Wpac + Repac						
SDRB Crofters Commission	Rep	Rep	Rep	Rep	Rep	Rep	Rep	Rep
SDRB Deer Commission for Scotland	Rep	Rep	Rep	Rep	Rep	Rep	Rep	Rep
SDRB General Teaching Council for Scotland	Sepac	Sepac	Sepac	Sepac + Rep(4)				
SDRB National Board for Nursing Midwifery and HV for Scotland	Wpac + Rep	Wpac + Rep	Wpac + Rep	Wpac + Rep	Wpac + Rep	Wpac + Rep	Wpac + Rep	Wpac + Rep
SDRB Nature Conservancy Council for Scotland		Wpac + Repac						
SDRB Parole Board for Scotland	Rep	Rep	Rep	Rep	Rep	Rep	Rep	Rep
SDRB Police (Scotland) Examination Board	NRP	NRP	NRP	NRP	NRP			
SDRB Scottish Agricultural Wages Board	Rep	Rep	Rep	Rep	Rep	NRP	NRP	NRP
SDRB Scottish Children's Reporter Administration							Wpac + Repac	Wpac + Repac
SDRB Scottish Community Education Council	Repac	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep

Table 11 (continued)

Organisation	1991	1992	1993	1994	1995	1996	1997	1998
SDRB Scottish Conveyancing and Executry Services Board		Repac	Sepac	Sepac	Sepac	Sepac	Repac	Repac
SDRB Scottish Council for Educational Technology	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep
SDRB Scottish Council for Research in Education	Repac							
SDRB Scottish Environment Protection Agency							Repac	Repac
SDRB Scottish Examination Board	Repac	Repac	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	
SDRB Scottish Further Education Unit				Sepac	Sepac	Sepac + Rep	Sepac + Rep	Sepac + Rep
SDRB Scottish Medical Practices Committee	Rep(3)			Rep(3)			Rep(3)	Rep
SDRB Scottish National War Memorial	Repac	Repac						
SDRB Scottish Natural Heritage			Wpac + Repfh	Wpac + Repac	Wpac + Repac	Wpac + Rep	Wpac + Rep	Wpac + Rep
SDRB Scottish Qualifications Authority								Wpac + Sepac + Rep
SDRB Scottish Seed Potato Development Council	Repac	Repac	Repac	Repac	Repac	Repac	Repac	
SDRB Scottish Vocational Education Council	MD + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac + Rep	Sepac	
SDRB Scottish Water and Sewerage Customers Council							Sepac + Rep	Repac

Key

OSS = Outside scope of study

MD = Missing data

NRP = No report published

Rep(3) = Report covering a 3-year period

Notes

- (1) Classifying reporting documents is sometimes difficult, particularly whether a document should be classified as Repfh rather than Rep. Moreover, it is sometimes difficult to be sure that all the documents that were published have been obtained. Whenever it is clear that such a document did exist, the cell is coded MD. Otherwise, there is no entry.
- (2) The Scottish Sports Council has had a White Paper Lottery account since 1994/95 and a Scottish Sports Council Trust Company subsidiary account since 1992/93.
- (3) The Scottish Arts Council has had a White Paper Lottery account since 1994/95.



Table 12

Table 12: Audit qualifications for Executive NDPBs within the Scotland Programme

Grouping	Organisation	Year	Nature of qualification	Resolution, if any, in following year	Auditor
ABRI	Animal Diseases Research Association (predecessor organisation to Moredun Foundation and Moredun Research Institute)	1990-91	No depreciation on fixed assets, contrary to SSAP 12 Absence of 'complete assurance' in relation to opening stock balance	Auditors commented on the same breach of SSAP 12 but did not qualify. Qualification purged in 1991-92	Pannell Kerr Forster
CB	National Galleries of Scotland	1994-95	Failure to consolidate the balances and activities of the Trust Funds and Bequests as required under FRS5.	Qualification purged in 1995-96.	C&AG
EDB	Highlands and Islands Enterprise	1991-92	Qualification relating to payments to Local Enterprise Companies with regard to training expenditure for which inadequate controls had been established by the LECs and to whose records the C&AG did not have access: "I consider these deficiencies were such as to cause uncertainty over the propriety of some payments to the LECs"	Qualification purged in 1992-93.	C&AG
		1992-93	Absence of group accounts consolidating LECs.	No remedial action.	C&AG
		1993-94	Absence of group accounts consolidating LECs.	No remedial action.	C&AG
		1994-95	Absence of group accounts consolidating LECs.	Qualification purged in 1996-97 by producing group accounts	C&AG
EDB	Scottish Enterprise	1991-92	Qualification relating to payments to Local Enterprise Companies with regard to training expenditure for which inadequate controls had been established by the LECs and to whose records the C&AG did not have access: "I consider these deficiencies were such as to cause uncertainty over the propriety of some payments to the LECs"	Qualification purged in 1992-93.	C&AG
		1992-93	Absence of group accounts consolidating LECs.	No remedial action.	C&AG
		1993-94	Absence of group accounts consolidating LECs.	No remedial action.	C&AG
		1994-95	Absence of group accounts consolidating LECs.	Qualification purged in 1996-97 by producing group accounts	C&AG

Table 12 (continued)

Grouping	Organisation	Year	Nature of qualification	Resolution, if any, in following year	Auditor
NTDC	East Kilbride Development Corporation	1992-93	Going concern qualification, regarding (a) the difference between open market value of industrial, commercial and civic fixed assets and likely disposal value; and (b) the difference between the net book value of housing assets and likely disposal value.	Auditors continued to note the "fundamental uncertainty" but stated that their opinion was not qualified.	Coopers & Lybrand
SDRB	Scottish Environment Protection Agency	1996-97	Limitations in audit scope, resulting from (a) insufficient information and explanations being available to the auditor; and (b) accounting records not always having been maintained during the period (12 October 1995 to 31 March 1997)	Qualification purged in 1997-98	C&AG
SDRB	Scottish Vocational Education Council	1991-92	No depreciation on fixed assets, contrary to SSAP 12	No remedial action	Grant Thornton
		1992-93	No depreciation on fixed assets, contrary to SSAP 12	No remedial action	Grant Thornton
		1993-94	No depreciation on fixed assets, contrary to SSAP 12	Imperfect remedial action	Grant Thornton
		1994-95	Understatement of Net Book Value of fixed assets owing to the failure to adjust for excessive depreciation in prior years, resulting in an understatement of depreciation in the current year.	No remedial action	Grant Thornton
		1995-96	Understatement of Net Book Value of fixed assets owing to the failure to adjust for excessive depreciation in prior years, resulting in an understatement of depreciation in the current year.	Full implementation of SSAP 12 in 1996-97.	Grant Thornton

1. An article already published from the Aberdeen project restricted its attention to Executive Agencies (Heald and Geaughan, 1997).
2. For the findings of the Cardiff project, see Pendlebury, Jones and Karbhari (1994); Karbhari and Pendlebury (1997a,b).
3. For the findings of the Belfast project, see Hyndman and Anderson (1995; 1997a,b,c; 1998).
4. Traditionally, these bodies have been officially described as 'Executive etc. NDPBs', in recognition of their varying functions, but the abbreviated term is now generally in use.
5. The exposition by Deaton (1996), written for the benefit of members of the Financial Reporting and Advisory Board, is particularly helpful.
6. It is unlikely that an Executive NDPB would now be established by Royal Warrant rather than by Royal Charter. The only example in this study of a body established by Royal Warrant is the Royal Commission on the Ancient and Historical Monuments of Scotland, which dates from 1908.
7. See, however, the discussion in chapter 9 of sub-contracted audits.
8. The exception is the Scottish Legal Aid Board: its direct expenditure is modest in relationship to the fund expenditure, which is on-Vote and therefore audited by the C&AG.
9. On 29 March 2000, the Deputy First Minister of the Scottish Executive announced the appointment of an independent Scottish Charity Law Review Commission, chaired by Jean McFadden. This is scheduled to report by Easter 2001.
10. The taxation of charities is a complex field outside the scope of this research report; the Treasury (1999a) published a consultation paper on this topic.
11. The original exemption is in The Charities (Exemption from Accounting Requirements) (Scotland) Regulations 1993 (SI 1993 No. 1624 (S.206)). This was amended, to include bodies established by Royal Charter, by The Charities (Exemption from Accounting Requirements) (Scotland) Amendment Regulations 1995 (SI 1995 No. 645 (S.51)).

12. The significance of the general government boundary is further examined in chapter 12.
13. The Scottish Parliament, though not the Welsh and Northern Ireland Assemblies, has the devolved legislative competence to amend the primary legislation. This may reduce the inertia factor, at least with regard to Scotland, but it may also generate new territorial differences.
14. The number of 65 comes from the 59 envisaged in the July 1995 White Paper (Treasury, 1995), plus six Northern Ireland Departments. Both constitutional developments and machinery of government changes have since affected this number: a list prepared in early 2000 suggested that there would be 44 DRAs for government departments, plus five 'voluntary participants' (mostly parliamentary bodies), six pension scheme statements, and an unspecified number of 'devolved' DRAs.
15. Figure 2 does not graphically represent the possibility that an Executive Agency, whether on-Vote or possessing Trading Fund status, might set up either limited company subsidiaries or engage in joint ventures. Neither of these circumstances arises in the case of the Scottish Executive Agencies.
16. There are a few arguable exceptions to this formulation, namely those 'self-financing' bodies dependent upon compulsory levies (such as the General Teaching Council for Scotland, reclassified out before the 1995 census) or upon charges for regulatory-like services (Accounts Commission).
17. For expository convenience, the term 'Survey' continues to be used here. The terminology has changed since the election in 1997 of the Labour government: the results of the Comprehensive Spending Review were announced in July 1998 and those of Spending Review 2000 in July 2000.
18. The Barnett formula was first applied in the early 1980s, though its development was stimulated by the expectation that devolved Assemblies would be established in Scotland and Wales at the end of the 1970s. The original proportions (10/85ths of the English change for Scotland; 5/85ths of the English change for Wales; and 2.75% of the GB change for Northern Ireland) were based on rounded 1976 populations. The formula was recalibrated in 1992 after the 1991 Census results became available, and moved to annual updating with effect from 1999/2000.

19. Cabinet Office (1999) lists two other Executive Agencies within the responsibility of the Secretary of State for Scotland. Forest Enterprise (created 1 April 1996) and Forest Research (created 1 April 1997) are Executive Agencies of the Forestry Commission, for which the Secretary of State for Scotland has been the lead minister. However, though reported on in the Scottish Office Departmental Report (Scottish Office, 1999), the expenditure of the Forestry Commission has been kept outside the Scotland Programme. These two Executive Agencies are therefore outside the scope of this study.
20. Subsequent issues of the Cabinet Office's annual report on Executive Agencies have abandoned this classification system in favour of listing by ministerial responsibility.
21. See the Glossary for an explanation of the Control Total. The reason for using 1997/98 estimated outturn figures is that these come from the 1998 issue of the Scottish Office Departmental Report (Scottish Office, 1998), the last before the expenditure redefinitions associated with the 1998 Comprehensive Spending Review and the last to keep the Forestry Commission explicitly outside the Scotland Programme.
22. It is unclear whether this was simply because of inertia, or whether continuation of the existing scoring practice brought benefits to sponsoring departments. Substantial amounts of money were involved, and the existence of new towns in Scotland, Wales and England raised the possibility of spillovers between territories and of impacts on the operation of the Barnett formula.
23. 'During the year, £45 million of industrial and commercial sales were completed allowing the Corporation to meet its cash repayments and fund the development programme' (East Kilbride Development Corporation, 1994, p. 31).
24. However, the three islands councils (Orkney, Shetland and Western Isles) did exercise these regulatory responsibilities as well as service provision. Therefore, there were ten river purification authorities, consisting of the seven RPBs (which formed the Scottish River Purification Boards Association based in Perth) and the three islands councils.
25. In its 1991/92 annual report, the North East River Purification Board (1992, p. 3) noted that its reporting style would change in this way as from 1992/93: 'The new style accounts will feature a cost centred approach, with a financial analysis of each of the main activities of the Board'.

26. Of these five groupings, four have been devised for the purposes of this study while the fifth (ABRI) is a grouping separately identified in Public Bodies.
27. One example of the importance of history is that there is a sixth research institute in Scotland that does broadly comparable science though in a different field. This is the Roslin Institute, which is one of the nine institutes funded and controlled by the Biotechnology and Biological Sciences Research Council, one of the UK research councils based in Swindon.
28. For example, the Macaulay Land Use Research Institute was established by the Scottish Office in 1987, merging the Macaulay Institute for Soil Research (MISR) and the Hill Farming Research Organisation. The MISR was founded in 1930 by Thomas B. Macaulay whose grandfather had originated from Lewis. His father had emigrated to Canada, becoming the managing director of the Sun Life Assurance Company, a post to which he succeeded (Macaulay Land Use Research Institute, 1997, p. iv).
29. The Animal Diseases Research Association converted from being a friendly society to a CLG on 1 July 1994, changing its name to the Moredun Foundation at the same time.
30. This treatment of LECs mirrored that of Training and Enterprise Councils (TECs) in England and Wales. In contrast, however, TECs are funded directly from departmental budgets, without intermediation as afforded in Scotland by HIE and SE.
31. The Scottish Arts Council became the responsibility of the Secretary of State for Scotland on 1 April 1994. Previously, like its Welsh counterpart, it was a committee of the Arts Council of Great Britain, which had secured its Royal Charter in 1946. All funding came through the then Department of National Heritage.
32. The day-to-day management of SHERT is undertaken by the Edinburgh legal firm of Turcan Connell. An oddity is that its sister organisation, the Scottish Hospitals Trust, also managed by Turcan Connell, has never been classified as an Executive NDPB. However, this is now included in the NHS section of the Cabinet Office's *Public Bodies*.
33. This reclassification out was unquestionably a device to reduce the Scottish Office's quango count; the change of status involved a substitution of core funding by means of a contract instead of grant-in-aid.

34. This body follows a complex trajectory through the study period. It existed long before it was reclassified into Executive NDPBs in 1991, only to be reclassified out in 1993. It then reappeared in the 1995 edition of Public Bodies (Cabinet Office (Office of Public Service), 1995) in the separate 'National Health Service Bodies' section, under its new name of 'Scottish Council for Postgraduate Medical and Dental Education', though its remit had been expanded in 1972. Its current status is as a 'special health board'.
35. These are: Highlands and Islands Enterprise; Scottish Court Service; Historic Scotland; Scottish Natural Heritage; Registers of Scotland; Scottish Arts Council; Scottish Qualifications Authority; Scottish Environment Protection Agency; Scottish Tourist Board; and Fisheries Research Services.
36. The 1997/98 spend is based on operating expenditure, using consolidated figures where possible. Thus, for the Moredun Research Institute, the spend is based on the consolidated expenditure of the Moredun Foundation. This is also true for the Enterprise networks, with both Highlands and Islands Enterprise and Scottish Enterprise being assessed on network expenditure. For the Scottish Legal Aid Board, both board and fund expenditure have been used. Being operating expenditure, charges for interest and taxation have been excluded along with any amounts relating to discontinued operations. In practice, the precise definitions would not much affect the picture.
37. See the Glossary for an explanation of EYF.
38. In September 1998, Auditing Practices Board (1998) published a Practice Note on the audit of regularity in the central government sector.
39. Following customary practice, the audit certificate for the 1995/96 accounts was signed by the C&AG, who wrote about the audit in the first person, without reference to this sub-contracting arrangement (Scottish Agricultural Science Agency, 1996).
40. The term 'White Paper account' is discussed in Annex 10.1.
41. This is described in National Audit Office (1998, p. 15) as being undertaken by the C&AG 'At the request of the Treasury and by agreement between the appropriate minister and the bodies concerned ...'. In such cases, the name and signature of the relevant NAO director appears before the statement 'For the Comptroller and Auditor General'. This wording relates back to the wording of a Treasury Minute,

- dated 1 January 1923, which regulates the way in which non-statutory certification audits are technically acquired. The awkward terminology about 'agreement' is a consequence of government not being able to place obligations on the C&AG.
42. For example, the auditors of the Scottish Environment Protection Agency are appointed on an annual basis by the Secretary of State for Scotland under Section 46 of the Environment Act 1995 (Scottish Environment Protection Agency, 1998). KPMG was appointed for 1996/97 and 1997/98.
 43. This remarkable dual arrangement applies to the National Board for Nursing, Midwifery and Health Visiting for Scotland, to its counterparts in England, Wales and Northern Ireland, and to the 'peak' body, the United Kingdom Central Council for Nursing, Midwifery and Health Visiting. This arrangement, enacted in the Nurses, Midwives and Health Visitors Act 1979, was re-enacted in the Nurses, Midwives and Health Visitors Act 1997. In consequence, the White Paper accounts for 1997/98 (Comptroller and Auditor General, 1998a) include a 'Report' (p. 18) by the auditors (Ernst & Young) and a 'Certificate and Report' (p. 21) by the C&AG.
 44. The only example which has been found of this practice is for the Scottish Conveyancing and Executry Services Board which appoints its own auditor under Schedule I (Section 13(2)) of the Law Reform (Miscellaneous Provisions) (Scotland) Act 1990.
 45. The Local Government (Scotland) Act 1994 was entirely silent on the accounting and audit arrangements for the Scottish Water and Sewerage Customers Council, which it established.
 46. Grant Thornton were the auditors of the Scottish Vocational Education Council throughout the study period until its absorption in 1997/98 in the Scottish Qualifications Authority.
 47. For example, Geoghegan & Co and Kidsons Impey have been the auditors of the Scottish Community Education Council during the study period.
 48. The only example is the Animal Diseases Research Association before 30 June 1994; it changed its name to Moredun Foundation and became a CLG on 1 July 1994.
 49. Over the study period, the North East River Purification Board was always audited by Accounts Commission staff; the Forth River Purification Board was always

audited by private firms; and the Tay River Purification Board was at different times audited by Accounts Commission staff and by private firms.

50. Hood (1994) used the term 'unmentionable motivation' to describe the kind of motivation that may explain particular policy developments but that a government is unlikely to use in its public justification of that policy.
51. However, the example of the Scottish Sports Council accounts (signed 'For the Comptroller and Auditor General' by the Financial Audit Director, National Audit Office, Scotland) which consolidate the Scottish Sports Council Trust Company (audited by Coopers & Lybrand) indicates that this is not a bar to auditing consolidated accounts including limited company subsidiaries. In all such cases, the basis for the preparation and audit of the consolidated accounts is either specific statute, accounting standards or Treasury direction, rather than the Companies Acts.
52. The expenditure and revenues of on-Vote Executive Agencies and Executive NDPBs are covered by the audit of the relevant appropriation account.
53. In 1997/98, the audited accounts show the deficit for the year as (£130,000) whereas the unaudited accounts reported this as (£112,000).
54. However, the term Repac has also been used in the context of the local authority-style 'financing basis' accounts produced by the RPBs.
55. Repfh may also contain an audit certificate, though checking whether this is the case has not been part of the research.
56. A report may cover a period of more than one year. There can be ambiguity about exactly which time period is covered by a particular report, as in some cases different parts of the same document relate to different time periods. Moreover, there are cases in table 11 where a document has been classified as Rep when it would have been classified as Repac had the accounts in that document related to the relevant year. This issue arises particularly when reports change from a calendar-year to a financial-year basis.
57. There are also cases with three documents, and some others where there is either a missing document (MD in table 11) or uncertainty as to whether all documents have been located.

58. There is a commitment to produce accruals accounts as from 1 April 1998.
59. It would seem that the Animal Diseases Research Association may have been preparing these accounts specifically to satisfy the requirements of the Scottish Office in connection with grant-in-aid. The audit certificate for both these years noted that the body had submitted separate accounts on a calendar-year basis in order to satisfy the requirements of the Friendly Societies Act 1974.
60. It has not been possible to locate a copy of the 1990/91 accounts of the Scottish Vocational Education Council in order to establish whether these, like those of succeeding years, were qualified.
61. The Standing Committee on Official Publications has also argued the case for rationalisation.
62. House of Commons Information Office (2000c, p. 4) comments that: 'As a result of these changes, such reports have often become difficult for the general public to obtain. Material in this category has continued to be collected by the House of Commons Library in the Classified Set ...'.
63. However, this is not necessarily the case for reports published for years before accruals accounting is adopted. For example, in its first year of operation, Fisheries Research Services (1998) published its own annual report and accounts.
64. Sessional numbers work in the following way. For a new session of Parliament, marked by the Queen's Speech (usually in November unless there is a general election), they start, for example, at HC 1 of Session 1997/98, numbering consecutively from November 1997 until October or November 1998. For example, the 1996/97 report and accounts of Historic Scotland were published on 23 July 1997 as HC 115 of session 1997/98 (Historic Scotland, 1997).
65. Papers can be ordered to be printed on the basis of typescript copies, and there is a rush to get documents 'ordered to be printed' before the recess.
66. The practice of dual dating started in 1991/92 for four bodies (National Galleries of Scotland, National Library of Scotland, National Museums of Scotland and Royal Botanic Garden, Edinburgh), and in the following year for the remaining bodies. All Executive NDPBs that have White Paper accounts now have dual dating, with the exception of the National Board for Nursing, Midwifery and Health Visiting for Scotland (which only has the date 'ordered to be printed').

67. These documents can be consulted by the public in the House of Lords Record Office (House of Commons Information Office, 2000b, p. 4).
68. The Scottish Fisheries Protection Agency complied fully with FRS 1 in 1996/97 and 1997/98, despite the continued instruction in the Accounts Direction of 25 May 1993 to produce a 'cash flow reconciliation statement'. From 1992/93 to 1997/98, the audit certificates were signed 'present fairly' as required by that Accounts Direction. As from 1998/99, this matter has been resolved by a new Accounts Direction dated 15 June 1999.
69. Throughout the study period, the auditors of SCET were Moores Rowland. SCET owns the building which is the source of about 6% of SCET's income. The governors' report in 1997/98 contained the following background: 'SCET purchased the old Notre Dame Teacher Training Complex in Dowanside, Glasgow, in 1979. These premises allow SCET to house a number of media and training organisations, currently twenty, under its roof.' There was no depreciation charge in the 1990/91 and 1991/92 accounts. In 1992/93, there was a change in accounting policy, with depreciation being charged on all fixed assets, except properties. The first mention of an Accounts Direction is in the 1997/98 accounts; heritable property was restated at 1 April 1997, to be depreciated over 100 years. Heritable property valued at £509,288 at 31/3/97 was restated as £2,309,500 at 1/4/97. There was also a revaluation of £80,500. Depreciation for 1997/98 came in at £20,134 for heritable property, compared with accumulated depreciation of £5,372.
70. There is other research evidence on this point. In their study of the 1996/97 accounts of large fund-raising charities, Connolly and Hyndman (2000, p. 88, italics added) noted that: 'In addition, a number of these charities were companies limited by guarantee and ... their financial statements did not comply with company reporting requirements [failure to prepare an income and expenditure account]. Surprisingly, none received a qualified audit report because of this.'
71. For example, the National Library of Scotland moved to modified historical cost in 1996/97 and the Rowett Institute in 1997/98.
72. The main purpose of FRS 15 was to standardise the treatment of revaluations, while not requiring a move to modified historical cost. This can be seen as smoothing the way towards a greater use of modified historical cost, however, by giving guidelines on how to implement it.

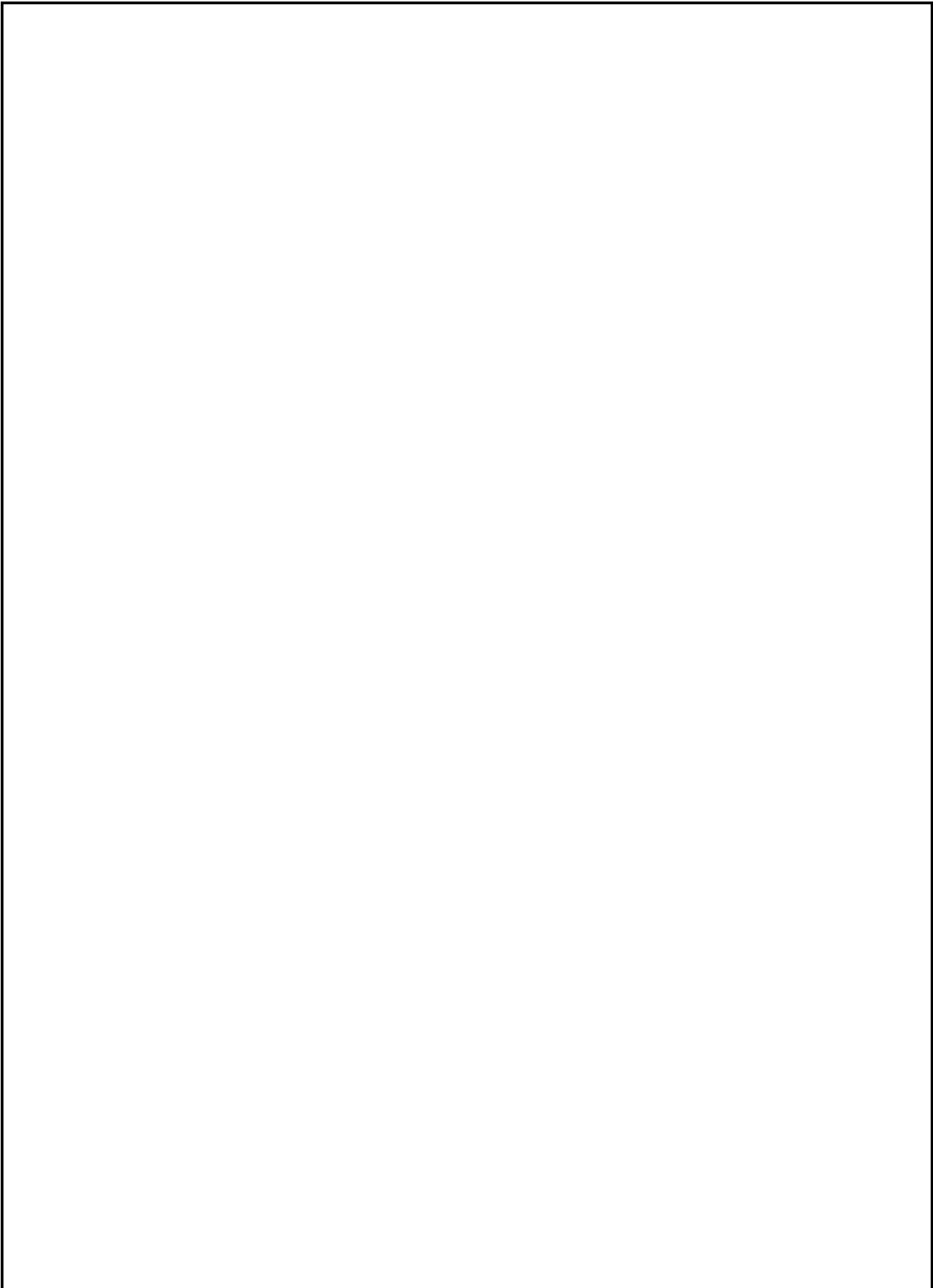
73. In the case of successful schemes, there will be a benefit throughout the life of the scheme, but not one that can be captured by the economic development body.
74. In 1995/96, Scottish Enterprise changed the basis of accounting for surpluses and deficits arising from the revaluation of investment properties in order to comply with SSAP 19. This resulted in a deficit on revaluation charged to the Income and Expenditure account of £23,124,000 in restated figures for 1994/95; there was no deficit at all in the original figures.
75. Note 20 to East Kilbride's 1993/94 accounts explained this revaluation adjustment: 'Housing assets have been included at depreciated cost subject to an adjustment which reflects their permanent diminution in value as calculated by reference to the principles contained in the Royal Institution of Chartered Surveyors publication of September 1989 "The Valuation of Transfer of Local Authority Housing Stock"' (East Kilbride Development Corporation, 1994, p.63). In contrast, the statement of accounting policies included in the 1992/93 accounts stated: 'Housing assets are included in the balance sheet at cost less depreciation calculated on the basis of loan redemptions' (East Kilbride Development Corporation, 1993, p. 20).
76. This was originally stated as £37.581 million, but the 1994/95 accounts included a prior-year adjustment, restating this figure as £37.836 million, without providing an explanation.
77. An obvious exception to this statement is that the Area Tourist Boards are not consolidated in the accounts of the Scottish Tourist Board.
78. As a result, the Treasury defined GGE(X) as the relevant public expenditure aggregate for macro-economic purposes: this excluded Lottery-financed expenditure (Heald, 1997).
79. A number of examples illustrate this diversity. First, Scottish Enterprise charges notional costs of capital to the Income and Expenditure account within 'Interest payable and similar charges'. The notes in Historic Scotland's 1997/98 accounts state: 'The notional cost of capital attributable to non business activities is reversed on the Income and Expenditure Account and those attributable to the business activities of Property Services and Investment Management are credited to the General Fund and to the General Reserve in respect of subsidiary undertakings.' Second, the Scottish Environment Protection Agency provided a note in 1997/98: 'There has been no notional costs charge in respect of the cost of capital. It is

intended that a notional rate of return will be charged in future years.' Finally, the Scottish Qualifications Authority provides a note in 1997/98: 'A notional charge to bring interest payable up to a 6 per cent return on capital employed has not been included in these accounts. Since this is not in strict accordance with Government guidance, the approval of The Scottish Office and HM Treasury is being sought to continue this practice in future years.'

80. However, Connolly and Hyndman (2000) report that 37% of their respondents included a SOFA in their 1994/95 accounts.
81. The General Teaching Council for Scotland, which ceased to be classified as an Executive NDPB in the April 1995 census, also did not produce a SOFA. It was stated in the 1997/98 accounts that a SOFA had not been prepared because 'the Council consider that the relevant information has already been disclosed in the financial statements'. In 1997/98, non-compliance by Scottish Qualifications Authority was explained as follows: 'SQA has no restricted funds requiring separate disclosure to comply with the Scottish charities reporting requirements'. In 1997/98, non-compliance by the Scottish Sports Council Trust Company was explained as follows: 'A Statement of Financial Activities as required by SORP2 has not been prepared as the Directors consider that the relevant information has already been disclosed in the financial statements'.
82. This is couched tentatively because the research has not extended to either Wales or Northern Ireland. It is clear that agencification has been minimal in Wales (the only Executive Agency remains Cadw, the counterpart to Historic Scotland). During the 1990/97 Major Conservative Government, there was intense political controversy over the role of Executive NDPBs. The position in Northern Ireland is characterised by immense complexity, with the traditionally large number of Executive NDPBs having been recently matched by a spectacular growth in the number of Executive Agencies (25 in 1998) (Cabinet Office, 1999). Heald (1998) suggested that the return of devolved government to Northern Ireland should be accompanied by a rationalisation of quasi-government which had developed, in part, as a mechanism for legitimising direct rule.
83. The function of nursing is reserved to the UK Parliament, but the National Boards for Scotland, Wales and Northern Ireland are devolved, their funding coming from the relevant devolved administration.

84. Following intense Parliamentary criticism of its performance, the Teachers' Pensions Agency was abolished and its work in relation to teachers' pensions in England and Wales was, after a tendering process, contracted out from 30 September 1996 to Capita Managed Services (Cabinet Office (Office of Public Service), 1997).
85. Personalities seem to have exercised a considerable impact on the development of policy. For example, the lack of enthusiasm of Michael Heseltine, Deputy Prime Minister from 1995 to 1997, for Next Steps and his firm conviction that there should be the maximum possible transfer of activities to the private sector (e.g. by means of strategic contracting out) has been widely discussed.
86. Examples are the Charity Commission for England and Wales, and the Office of the Director General of Water Services (OFWAT).
87. The most dramatic examples are both outside the study period: the Student Awards Agency for Scotland (whose distribution of grant cheques was disrupted by computer systems failures in Autumn 1998) and the Scottish Qualifications Authority (whose promulgation of public examination results was disrupted by management failures in Summer 2000).
88. Separate accounting guidance has been developed for Executive NDPBs and Trading Funds (including those which are also Executive Agencies), based on the Resource Accounting Manual where appropriate. These have been endorsed by FRAB, which took on the role of overseeing these sets of guidance during 1999/2000. The new guidance will take effect from 2001/2002, being updated in a similar way to the Resource Accounting Manual (i.e. proposed changes are put by the Treasury to FRAB for approval). Unfortunately, these bodies, together with on-Vote Executive Agencies, will continue to have individual comprehensive Accounts Directions.
89. 'Small' audit firms may be particularly vulnerable as they may lack sufficient technical back-up relevant to the auditing of public bodies.
90. Scottish Office Finance Group in pre-devolution terminology, now Scottish Executive Finance.
91. Even at full maturity, there will continue to be new creations, as well as dissolutions, mergers and privatisations.

92. A significant effort has been made by the House of Commons Library to keep its collection of such reports comprehensive and up to date, though there are some gaps. In contrast, the collection in the National Library of Scotland, despite its status as a legal deposit library, has large gaps. There was a considerable loss of such documents when the three Scottish Office libraries were hastily combined in April 1999 into one Scottish Executive Library and Information Services, with items still on the catalogue apparently having then been destroyed.
93. But not all those concerns, particularly in connection with use of the PFI.
94. Unexpected changes to public expenditure scoring arrangements introduced by the Treasury as part of the Spending Review 2000 settlement (Treasury, 2000a) will have implications for the financial control of quasi-government bodies.
95. This problem is exacerbated by the understandable reluctance of governments to correct misleading media reports.



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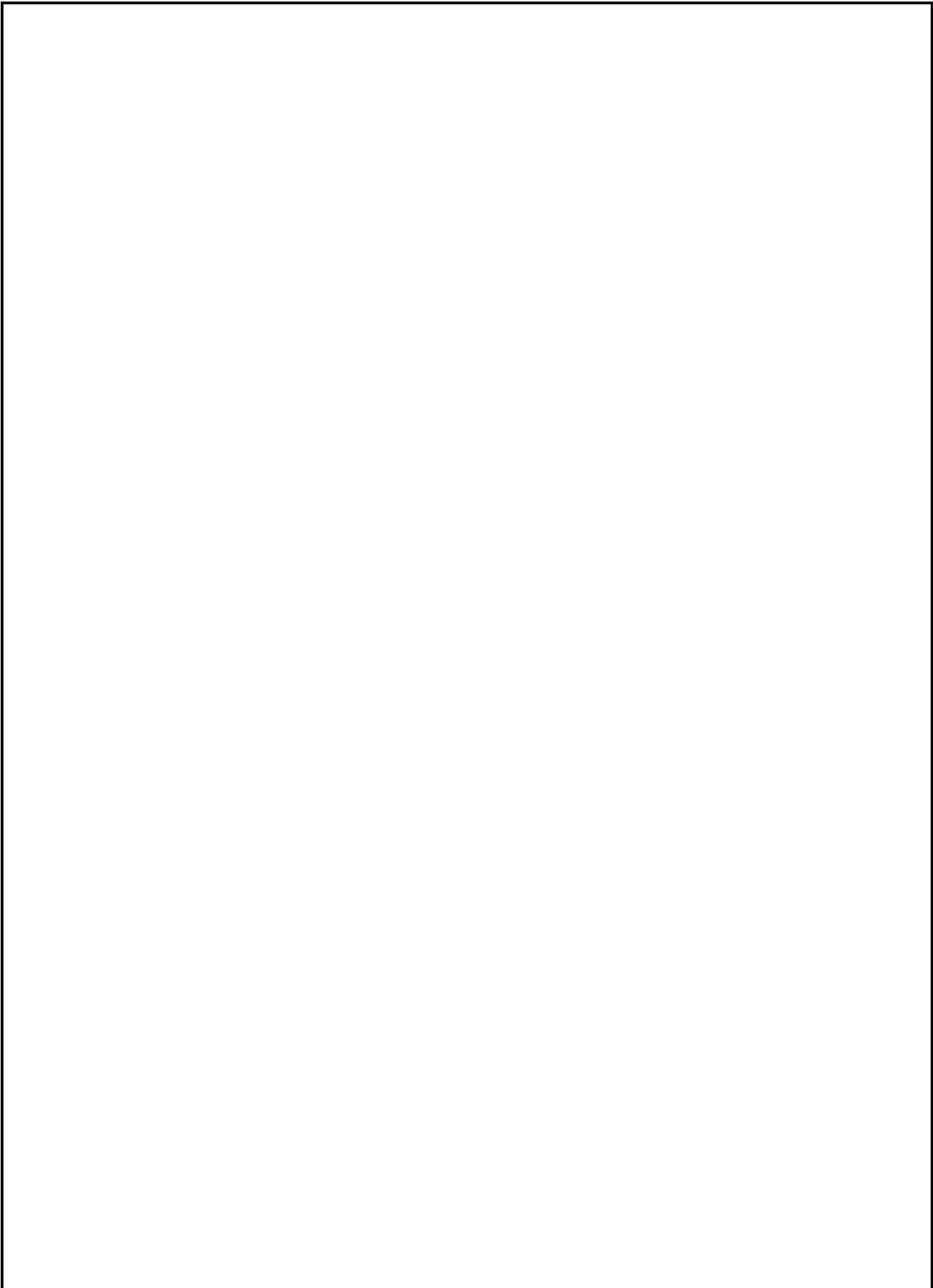
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