

Auditee Perceptions of External Evaluations of the Use of Resources by Local Authorities

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Abstract: The research reported in this paper takes up Michael Power's challenge that accounting researchers should pay more attention to the perceptions of auditees and how they respond to audit regimes. The setting of the study is the intense performance assessment regime imposed on local authorities in England from 2002 to 2009, one part of which – the Use of Resources (UoR) assessment – rated the financial management capability and performance of each English local authority. The perceptions of senior local authority finance officers within the Yorkshire and the Humber region are reported, using a written questionnaire and an interview to explore the reasoning behind the chosen responses. The results are more nuanced than suggested by either the official rhetoric justifying the UoR system or by those critics who view such systems as dysfunctional. Respondents portray themselves as intelligent actors, not as passive recipients. Most learned to use the UoR process to drive performance improvement, though there is some ambiguity as to whether the improvements were genuine or solely a product of the scoring system. Though adding to workload, UoR was regarded as one of the external pressures to be managed and its requirements largely represented professional views of best practice. Three of the types of control that characterise 'regulation inside government' (Hood et al., 1999) – oversight, competition and contrived randomness – are seen through the perceptions of the auditees. There is some evidence of the fourth style, mutuality – working through professional networks to help local authorities improve their actual and reported performance.

Keywords: auditee perceptions, inspection, local government, performance audit, public audit, regulation inside government

INTRODUCTION

The use of external performance evaluations is a landmark feature of New Public Management (NPM). For example, the seven doctrinal components of NPM (Hood, 1991) include the use of 'explicit formal measurable standards

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and measures of performance and success' and related accounting technologies include the use of 'performance indicators and audit' (Hood, 1995, p. 96). Lapsley (2008) provides a series of propositions predicting that the pressures for NPM will continue, which include that performance measurement will continue to be heavily emphasized by public organizations, audit bodies and governments and that public service managers will continue to make their actions auditable and verifiable.

This paper reports on a survey of senior finance officers of local authorities in 2008, at a time when local authorities in England were subjected to an intense performance evaluation regime called 'Comprehensive Performance Assessment' (CPA). An integral part of the CPA was the Use of Resources (UoR) assessment of the financial management performance of each local authority, carried out by an auditor appointed by the Audit Commission (AC).

Our survey was carried out at a time of continuing change in the performance assessment regime and this is reflected in some of the responses of the auditees. The CPA was replaced in 2009 by the Comprehensive Area Assessment (CAA), which involved a number of evaluation agencies carrying out assessments of multiple public sector bodies, including local government, health agencies and emergency services, on an area basis (Audit Commission et al., 2009). However, the UoR remained based on each local authority. The incoming Conservative-Liberal Democrat UK Coalition Government announced the abolition of CAA in June 2010 (Department of Communities and Local Government, 2010a) and hence of the UoR. This was followed by the announcement in August 2010 of the intention to abolish the AC (Department of Communities and Local Government, 2010b).

The motivations behind the paper, discussed more fully in the next section, are twofold. The first is to provide original, empirical findings on the perceptions of auditees in contrast to much of the existing literature on audit and inspection regimes which is focused on the role of auditors. The paper therefore responds to Power's (2003) call for research which examines the position of auditees to help understand the impact of the explosion of auditing, in this case in the particular context of an intensive public sector performance management regime. Successful execution of the research design has highlighted the complexity and subtlety of auditor-auditee relationships and confirmed the contingent nature of behavioural responses. The views of auditees reported here are more nuanced than would be expected from either the official rhetoric justifying the CPA and UoR systems or from those critics of NPM who view such systems as dysfunctional. The second is to contribute to the literature on public sector performance management, particularly in those jurisdictions in which central and local governments seek to prescribe a balance between standardized reporting of local government financial management and the retention of local decision-making and accountabilities. In the context of England, the results reported in this paper have public policy relevance as the Coalition Government takes steps to enact a new structure for local authority audit and inspection.

The paper is structured in six further sections. The next section indicates the conceptual and theoretical motivations underlying the study. The third section gives an outline of the CPA regime, and its UoR component, necessary for an understanding of the results of the study. The fourth section describes the research method. The fifth section summarizes the results. The sixth section provides discussion and interpretation of the findings. There is then a short concluding section which links back to the conceptual and theoretical motivations and considers the scope for further research.

CONCEPTUAL AND THEORETICAL MOTIVATIONS

The conceptual and theoretical motivations for the empirical study are set out in this section. The UoR approach of centralized performance measurement of English local authorities is a striking example of what Hood (2007a, pp. 195, 203) labels 'bureaucratic transparency', by which he means making activities/conduct/performance 'observable by experts or agents'. Two seminal contributions to the literature underpin this classification, namely those by Michael Power and Christopher Hood.

Power's (1997) analysis of the 'audit society', as applied both to the public sector and to the many regulated parts of the private sector, has spawned a voluminous literature. Fundamental to his view are two components: the transfer of resources and prestige away from 'producing' (in its broadest sense) to 'watching' what others do; and a revolutionary expansion in projects to measure 'objects', including those that would previously not have been regarded as measurable (Power, 2004). The implication of this second component is that rationally-motivated 'auditees' shift their attention away from broadly-construed performance against objectives to performance on the measurement instrument itself. This displacement effect becomes especially powerful if the measurement results are subsequently transformed into sporting-like league tables.

There is a tendency in the literature and in popular representation, not present in Power's own writings, to regard these developments as necessarily malign. Power himself has been searching for an understanding of the social, political and economic factors that explain these shifts in control substance and style. The 'auditee' has been constructed as a governable person or organization, whereas most prior academic, regulatory and professional literature in relation to the narrower field of financial certification audit has put the focus squarely on the 'auditor', with the auditee remaining relatively invisible. Power (2003, p. 199) explicitly called for more empirical research on auditees and their social construction as governable subjects, for example, on their perceptions of the audit process and their behavioural reactions to audit. The impact of auditing processes on auditees and auditable performance is ultimately an empirical issue (Power, 1997, pp. 96–98; 2000, p. 111; and 2003, p. 199) and is dependent upon the analysis of data drawn from methods such as surveys and case studies. An example is the consideration of auditees and their interactions with auditors in

Morin's (2001) evaluation of six value for money (VFM) studies undertaken by the Auditor Generals of Canada and Quebec.

Power's analysis of the audit society has identified a number of issues which have informed the study described in this paper. Power (1997, pp. 94–98) describes how audit-type processes can lead to the 'extremes' of decoupling and colonization.

Decoupling exists when the audit process 'becomes a world to itself' and creates auditable images of performance which are disconnected from the very organizational processes which they are intended to represent. The result may be that the demands of performance management regimes create an emphasis on the auditability of systems and processes, rather than the substance of performance, resulting in performance becoming 'an abstract and formal reference point which is subsumed under the goal of verifiability' (Power, 1996, p. 301). In this study, we assess auditees' perceptions of whether processes are routinely adopted to promote high UoR performance without consideration of their purpose or linkage to local government activities.

Colonization would see audit and inspection penetrating deep into organizational activities to create not only reporting demands, but to instil new and routine perceptions of the legitimacy of such processes. Power (1997, p. 97) warns that colonization is rarely successful because the institutional environment is not usually homogeneous and consistent. For example, in the context of the current study, the measuring, auditing and reporting of VFM in local authorities could promote organizational change or might flounder in the face of different perceptions of the meaning of VFM and how it might be measured and audited. In this study, we assess auditees' perceptions of whether the different elements of the UoR inspection are assessed in a consistent manner by auditors.

One result of the 'audit explosion' (Power, 2003) is that it may result in the transfer of institutional power to auditors, who may overstep their traditional auditing function to become *de facto* policymakers (2003, p. 194) or major interpreters of political mandates (2000, p. 116). In this study, we assess auditees' perceptions of the role of the AC in the local government audit and inspection process, given its critical role in the development of UoR and the appointment of auditors to the inspection process.

Christopher Hood is the pre-eminent analyst of NPM, a label for a set of mechanisms and tools that are bundled together in various combinations under the guise of public sector 'modernization', 'reform' or 'renewal'. There is now an extensive academic literature on NPM and on that sub-set of NPM that has been labelled as 'New Public Financial Management' (NPFM). The impact of these ideas on English local government has been pervasive (Downe and Martin, 2006). A common characteristic is central government insistence on (what have been viewed as) private sector styles of local authority management: accruals accounting; outsourcing, including Public-Private Partnerships; arm's length bodies where functions have not been removed or privatized; and corporate management rather than committee-based consensus decision-making.

Notwithstanding this record of heavy central government intervention, coupled with restrictions on the independent tax-raising powers of local authorities, there has been a continuing central government view – whether justified or not – that English local authority performance in service delivery is unsatisfactory.

Intensified oversight, with its related auditing practices, appears to be a global phenomenon (English and Skærbæk, 2007), manifested in the United Kingdom in the form of target-setting and ranking (Pollitt, 2006), particularly in England (Hood, 2007b). Whereas Power's audit society has economy-wide application, Hood et al. (1999) synthesized the internal workings of the UK public sector after extensive experience of NPM reforms. Those parts of the public sector that had not been privatized were subjected to a new style of control, labelled 'regulation inside government', invoking a parallel to the explicit regulation of privatized activities such as the public utilities.

Drawing on cultural theory, Hood et al. (1999) devised a schema in order to show how three 'inspector free' types of control (competition, contrived randomness and mutuality) could be used as substitutes for, or complements to, 'command and control' (labelled as 'oversight' although authors such as Ezzamel (1992) have applied the term 'hierarchy'). Competition is based upon the development of market-style structures in which public sector bodies compete with each other, and with private and not-for-profit organizations, for contracts and funding to provide public services. Contrived randomness refers to regulation under which regulated bodies face uncertainty in its application, for example, by the use of unannounced inspections, by near-continuous changes in the focus of inspection or its scoring mechanisms, or by the assessment of highly subjective categories of performance. Mutuality implies that reliance is placed upon professional and epistemic communities, leading to the co-operative development of best practice.

Auditing activities cannot be taken as passive by-products of NPFM; rather, they influence the framing and interpretation of NPFM reforms and provide methods of control and accountability of the actions of individuals and organizations (Power, 1997; and English and Skærbæk, 2007). Power (1996 and 1997) reflects on the extent to which audit can legitimate particular strategies and operational activities by promoting auditable measures of performance and by the development of formal systems of control assessed through expert opinion. For example, Arnaboldi and Lapsley (2008) examine the process of making things auditable in the context of the implementation of Best Value audit of local government in Scotland; Skærbæk and Thorbjørnsen (2007) recount the commodification of the Danish Armed Forces through accounting and budgeting systems changes; and Justesen and Skærbæk (2010) show how performance auditing was implicated in narrating a new auditee identity in the Ministry of Transport in Denmark. In this study, we sought to understand the perspective of auditees through a survey and interviews rather than by case-study research. This approach enabled us to consider the extent to which local authority finance directors in one English region perceived it necessary to change the way things

were done to accommodate the external assessment of local authority use of resources.

An impact of the intensification of performance auditing is that the relationship between auditor and auditee comes under increasing strain. The role of the auditor in the performance audit process may become ambiguous (Lindeberg, 2007) if the auditor is expected to carry out roles as both an external assessor of performance and as an advisor to the auditee to promote improvements in line with best practice. Gendron et al. (2001), using the Canadian example, indicate the potential for conflict when the role of the state auditor as an independent assessor becomes too closely associated with the promotion of government policy. Sharma (2007) shows how the UK National Audit Office (NAO) seeks to balance its role of acting on behalf of the Public Accounts Committee with making recommendations to its auditees. These examples of the blurring of the audit/advisory role of the auditor are consistent with Power's (2003, p. 194) perception that the relationship between auditors and auditees is influenced by the ambiguity of the target domain and negotiability of the features of the inspection process.

COMPREHENSIVE PERFORMANCE AND USE OF RESOURCES ASSESSMENTS

Although possessed of their own democratic legitimacy through popular election, local authorities in England have been recast into an agent role, with central government as the principal. With there being over 350 local authorities in England,¹ the (frequently renamed) central government department responsible for local government in England was ill-equipped to exercise direct control. This shortfall in capability was compensated by dramatic extensions in the role of the AC. From its birth in 1983 to its impending death in circa 2014² the AC has been responsible for the appointment of local government auditors and for the undertaking of a substantial number of those audits. The remit of the AC shifted decisively from the narrowly defined scope of financial certification audits to embrace performance measurement, performance audit and performance management. There was ambiguity as to whether the AC, a public corporation latterly sponsored by the Department of Communities and Local Government (DCLG), was simply an outsourced arm of central government or whether it acted as a constitutional buffer that protected the diminished autonomy of local authorities and their accountability to their own electorates.

Local authorities in England have faced more regulation at arms-length, yet have less operational freedom than before (Hood et al., 1999); this latter development clearly pre-dated the CPA within which the UoR was embedded. Significantly, the period during which the UoR operated was one of remarkably strong local government expenditure growth. Between 1997–98, the first year of the Labour Government, and 2009–10, the last year, nominal expenditure rose by 132.7% and real terms expenditure (i.e., nominal expenditure adjusted by the GDP deflator) rose by 80.6%.³ The declared motivation was to achieve

improved VFM, reflective of continuing doubts in central government about local authority efficiency and effectiveness, rather than to limit or reduce public expenditure – a motivation often attributed to governments that adopt NPFM techniques.

Several factors made the UoR a viable research site: the explicit declaration of objectives; the intensification of audit procedures; the publication of audit methodology; the publication of results; and the expected consequences of low scores for council reputations and officer careers. The underlying research question is how local authority auditees react to this centralized imposition of an external performance management regime. This differs markedly from a self-developed Balanced Scorecard (BSC) (Norreklit, 2000) where the detailed content of the four 'perspectives' would be internally determined by senior management and/or political leaderships. Yet the structure of the UoR did have similarities to the BSC (Woods and Grubnic, 2008). The crucial difference is that the AC not only prescribed the performance criteria but also imposed the evaluator role on the auditor appointed for the purposes of financial audit. This performance management system contained three of Hood et al.'s (1999) types of control: 'command and control' (little that might be considered to be fundamental was negotiable); 'competition' (inherent in scoring systems readily translatable into league tables); and 'contrived randomness' (whether part of the original design or not, the UoR criteria and scoring scale continuously evolved). Although 'mutuality' was not part of the design, local authorities might see common interests and engage in mutual support. In any case, behavioural responses of local authorities to such a regime shift seemed likely to occur, rather than there just being passive acceptance of these control changes.

The CPA was introduced in 2002 as a tool to bring together elements of the AC audit and inspection work to enable a single judgement to be formed about local authorities' performance and arrangements for improving services (McLean et al., 2007). It was applied initially only to the larger local authorities in England (Audit Commission, 2006a) and covered six service areas (education, social care, environment, housing, library and leisure, and benefits) together with corporate and UoR assessments. The service assessments were made by various specialized inspectorates. The corporate assessment was intended to assess community leadership and corporate arrangements for supporting the services and delivering improvements, being undertaken through self-assessment and the work of auditors appointed by the AC. Each of the individual assessments was awarded a score from one (weakest) to four (strongest) and these individual scores were then combined to give an overall performance score on a five-point scale of poor, weak, fair, good and excellent.

From 2005 onwards an enhanced version of the CPA was introduced, called *CPA – The Harder Test* (Audit Commission, 2005a). The components of services, corporate assessment and UoR were retained but levels for components were introduced to show their relative importance towards the overall CPA rating. The UoR assessment was placed at the higher Level 1 together with services

for children and young people and social care for adults; other items were designated as Level 2. The overall CPA ranking was still on a five-point scale but was renamed as star categories with 0 stars as the worst and 4 stars as the best. There were detailed changes in the assessment method for individual elements, which made the new assessment not directly comparable to the original scheme. Some further amendments were made in 2007, most significantly the addition of a 'Direction of Travel' (DoT) indicator, and this system was used through to 2009.

The CPA system was extended to District Councils in England from 2003. The system for these smaller councils was less extensive than that described above. A corporate assessment was carried out in areas such as housing benefit, housing and public space. A total of ten themes was assessed on a 1 (weak) to 4 (strong) scoring system and then combined to produce an overall CPA assessment of poor, weak, fair, good, or excellent. Initially, the AC published only the overall CPA score for District Councils, but fuller disclosures began from 2005 and a more extensive framework was introduced from 2007, incorporating service performance assessments and a DoT indicator (Audit Commission, 2006b).

The UoR assessment thus formed part of the CPA, initially for single tier and county authorities and later for district authorities. The UoR assessment was carried out by auditors appointed by the AC, which might appoint its in-house auditors (still widely known as 'District Audit', though the label was officially redundant) or a private sector firm. The UoR was divided into five themes, covering Financial Standing, Systems of Internal Control, Standards of Financial Conduct, Financial Statements, and Legality of Significant Financial Transactions. Each theme was sub-divided into areas of evidence, to arrive at a theme score of 1 (weakest) to 4 (strongest) with the theme scores then used to determine the overall UoR score, also from 1 to 4.

The way in which the UoR score was assessed was altered under *CPA – The Harder Test* (Audit Commission, 2005a). The five themes in the revised structure were Financial Reporting, Financial Management, Financial Standing, Internal Control and VFM. All the original 2002 themes were enhanced or re-categorized in the revised structure. The auditor judgements to arrive at the theme scores were restated as Key Lines of Enquiry (KLoEs). The AC published detailed guidelines for auditors of the approach needed to assess UoR and every theme had several KLoEs (Audit Commission, 2006c). The evidence for each KLoE was then elaborated for each level of score to be awarded. These elaborations were called descriptors for the VFM theme and criteria for the other themes within the UoR (Audit Commission, 2007). The KLoE evidence and criteria/descriptor for UoR assessments were intended to clarify what was required from local authorities to achieve particular scores. The additional detail introduced into KLoEs was intended to promote consistency of auditors' judgements in determining UoR scores.

The assessment of each theme was based upon a four-level categorization: 1 (inadequate performance), 2 (adequate performance), 3 (performing well) and 4 (performing strongly). The five theme scores were then combined to determine

the overall UoR score from one to four. For example, an overall UoR score of 1 was applied if a local authority failed to achieve at least a 2 score on at least three themes, while to gain an overall UoR score of 4 a local authority had to score at least two themes at 4 and have no theme below 3.

Table 1 shows the UoR scores achieved by local authorities in Yorkshire and the Humber, together with the average results for the region and for England as a whole. From 2002 to 2004 the CPA system applied only to single tier and county councils. The national results in that period show an increase in UoR mean scores from 3.0 to 3.7. When *CPA – The Harder Test* was introduced in 2005 there was a reduction in the mean national score to 2.6, followed by an increase over the next three years to a mean of 3.1, then a sharp reduction to 2.5 in the first year of CAA. District councils were UoR-assessed for the first time in 2005, with a mean national score of 2.3, rising to 2.7 in subsequent years under CPA, but declining to 2.3 in 2009, following the introduction of CAA.

The AC's reports are not, individually, the subject of scrutiny by Parliament and so the impact of its findings depends upon the responses of the individual local authorities to which it reports and those of the DCLG. The same assessment is used to provide feedback to the local authorities, giving opportunities for the appointed auditors to provide advice on how a local authority might improve on its scoring in the future. Such an approach has been interpreted as seeking to change the behaviour of local authorities to fit preferred national policy perspectives as much as to improve performance through locally driven initiatives (James, 2003). This differentiates the present context from literature (Moynihan and Pandey, 2010) on the factors determining public officials' actual use of internally-generated performance information. However, the AC made a connection to the use of performance information literature by commissioning a report from the Institute of Local Government Studies, University of Birmingham, on how performance improvement could be driven by better use of information (Van de Walle and Bovaird, 2007).

There is a substantial literature on the CPA but the UoR has so far been neglected as a research site. Kelly (2003, p. 474) identified a number of challenges facing the AC in the context of the CPA. One issue was whether or not the measurement of performance would make a significant difference to middle-ranking local authorities. Another issue was whether central government monitoring of local authorities' performance and their capacity to deliver national policies would weaken further the political accountability of locally-elected representatives. One of the outcomes of a centrally-driven performance management system, such as CPA, may be to weaken the influence of local citizens and elected councillors in the determination of local authority policy and in strategy implementation. In this study, we sought the views of local authority auditees on the extent to which the performance measurement regime had reflected the interests of central government rather than those of local authorities or their citizens and the impact of CPA on the inclination of electors to vote in local elections.

Table 1
UoR Scores for Local Authorities in the Yorkshire and the Humber Region

Local Authority Single Tier & County Councils	Score under CPA – Original Scheme					Score under CPA – The Harder Test			Score under CAA
	2002	2003	2004	2005	2006	2007	2008	2009	
Barnsley	3	3	4	3	3	3	3	3	3
Bradford	3	4	4	2	2	3	3	3	2
Calderdale	3	4	4	3	3	4	3	3	2
Doncaster	3	3	3	2	2	2	3	2	2
Kirklees	3	3	4	3	3	3	3	2	2
Leeds	3	4	4	3	3	3	4	3	3
Rotherham	3	3	4	3	4	3	4	3	3
Sheffield	3	4	4	3	3	4	3	3	3
Wakefield	3	4	4	2	2	3	3	2	2
East Riding of Yorkshire	3	4	4	4	4	3	4	3	3
Kingston-upon-Hull	1	2	3	2	2	2	3	2	2
North East Lincolnshire	2	3	2	1	2	3	2	2	2
North Lincolnshire	3	4	4	3	3	3	3	2	2
York	3	3	3	3	2	3	3	2	2
North Yorkshire	3	4	4	3	3	3	4	3	3
ST&CC Means – Region	2.8	3.5	3.7	2.7	2.7	3.0	3.2	2.4	2.4
ST&CC Means – National	3.0	3.5	3.7	2.6	2.9	3.0	3.1	2.5	2.5
District Councils				2005	2006	2007	2008	2009	
Craven				2	3	2	1	1	
Hambleton				3	3	3	3	2	
Harrogate				2	2	3	3	2	
Richmondshire				2	2	3	3	2	
Ryedale				2	2	2	3	2	
Scarborough				2	3	3	3	2	
Selby				2	3	3	3	3	
District Means – Region				2.1	2.7	2.7	2.7	2.0	
District Means – National				2.3	2.6	2.6	2.7	2.3	

Note:

The actual name for UoR scores was 'Auditor Scored Judgements' until CPA – The Harder Test, but this paper uses UoR throughout.

Source: Audit Commission (various tables).

RESEARCH METHOD

In order to research the self-reported perceptions and responses of local authorities as auditees, certain key decisions had to be taken. The first question related to who should be regarded as an appropriate person to represent the local authority. The UoR is portrayed as a technical process, part of Hood's (2007a and 2010) bureaucratic transparency whereby internal experts communicate with external experts. For that reason, local authority officials, specifically the Director of Finance or equivalent, were chosen to represent the auditee local authorities, rather than the elected political leadership.

The second question related to whether to match the auditees with their auditors. Notwithstanding admiration for the success in the private sector of Beattie et al. (2001), previous failure in attempting such a match on technical accounting issues in local authorities was judged by the researchers to be sufficient grounds to rule this out. Moreover, the heightened sensitivity generated by a failed attempt might also have reduced the response rate from auditees.

The third question was whether to use a postal or web-based questionnaire, sent to all English local authorities. This option was rejected because of an expectation that the response rate would be too low to provide useful results. Consequently, an intensive fieldwork approach was adopted, involving a formal questionnaire supported by a face-to-face interview. Time and cost resource constraints then led to the decision to undertake the fieldwork in one English region (Yorkshire and the Humber), where 22 local authorities of various types are located.

The study involved three stages: (1) a documentary analysis of the CPA and UoR; (2) a questionnaire issued to each local authority in the Yorkshire and the Humber region; and (3) a follow-up interview with those local authority officers who had completed the questionnaire. Stages (2) and (3) were linked because it was envisaged at the start of the project that the questionnaire would be used as the basis for both the survey and the later interviews.

The first stage involved the collection and analysis of CPA and UoR documentation. These are mainly official documents from the DCLG, the AC, and local authorities in the region studied. The AC had its own website (<http://www.audit-commission.gov.uk>) providing information on relevant policies, the audit process, scored performance results, rules for the scoring and guidance for local authorities.

The second stage involved the design of a questionnaire to be sent to the Finance Director of each local authority in the Yorkshire and the Humber region. Statements, rather than questions, were used to enable a Likert scale to be utilized (Bryman, 2004). The absence of prior research into auditees' perceptions of UoR meant that it was necessary to design the questionnaire from scratch. This took an extended period from February to December 2007, with the questionnaire being sent to all local authorities in Yorkshire and the Humber region in March 2008. The process began by mapping from a set of

generic research questions (Abu Hasan, 2009, p. 5) to those issues that had been identified from the analysis of secondary data during the first stage of the project. This led to the creation of a long list of short statements to itemize issues which might be identified through questionnaire or interview responses. During this period an interview was arranged with a manager from the AC to ensure that the researchers' understanding of the UoR system and processes, gathered during the first phase of the project, was complete. The interview covered such issues as the mechanism of auditor appointment to local authorities, the relative importance of each UoR theme, the scoring process and the development of the KLoEs.

The issues identified and the short statements in the draft questionnaire were then divided into three sections covering (1) certification audit, (2) the UoR assessment, and (3) the CPA assessment. This was thought to provide a clearer structure for answers and reduce the chances of respondents mixing up these separate, but related, issues. The structure, ordering and wording of statements had to be thought through carefully because of the length of the document and the technical nature of some of the statements. For example, the statements relating to the scoring system needed to be worded so that respondents were aware that we were referring to the UoR score, not the underlying themes and not the overarching CPA score of the local authority. In some cases, a more concise statement was used to cover several short questions in order to avoid an excessively long questionnaire. A 'no view' column was added, should a respondent be unable to respond to a statement because of a lack of specific experience of an issue or because of the technical nature of certain questions.

The draft questionnaire was then subjected to pilot testing, internally at the University of Sheffield on a selection of graduate research students and staff, which resulted in some changes to the wording of some of the statements. A second stage of pilot testing was then carried out with the assistance of a local authority outside the Yorkshire and the Humber region. The Director of Finance, the Financial Accounting Manager and the Use of Resources Manager all completed the questionnaire and agreed to help in pilot interviews to discuss both the reasons for their response to each question and any difficulties encountered in understanding or responding to the statements. The result of the pilot testing gave the researchers confidence that the questionnaire was likely to be understood by respondents. None of the statements was removed, although there was some minor alteration to wording in some statements. Space was added between sections of the questionnaire to allow respondents to write comments at the time of completion or prior to a subsequent interview. The font size was increased and more space provided between the statements so that the final version looked less compressed. These changes increased the length of the questionnaire from four to six pages.⁴

The third stage of the project involved interviews with the Director of Finance (or other delegated senior finance officer) in each local authority in the Yorkshire

and the Humber region in order to gain a deeper understanding of how questions had been interpreted and the reasons for the choices made by each respondent. The pilot study interviews had indicated that separate interviews with managers responsible for financial accounting and UoR procedures were likely to provide only marginal information above that provided by the Director of Finance, while gaining agreement to conduct three interviews at each local authority, rather than one, would be much more difficult. As a result a single interview was requested, while leaving open the opportunity for other staff to be invited to the interview at the discretion of the Director of Finance. The pilot interview had shown that using the questionnaire to guide the interview was practical over a one-hour period. It was decided that the process should allow respondents to alter their choice of answer if thought appropriate. However, there were few such circumstances and changes were only made to the questionnaire response in cases where there was an explicit agreement, evidenced in the interview transcript, to change the choice of answer.

Much time and effort was expended in securing the agreement of respondents to complete the questionnaire and be interviewed. An extended period between July and December 2008 was devoted to arranging and conducting the interviews. The benefit was that a very high response rate was obtained, thus promoting confidence in our findings. Questionnaire responses were received from 20 out of a total of 22 local authorities (91%) in the Yorkshire and the Humber region. One local authority ignored our request, although many attempts were made to elicit a response. Another local authority replied that it was unwilling to participate, not being convinced that the study would provide benefit to them. Of the 20 local authorities that completed the questionnaire, 19 (86% of the local authorities in the region) agreed to be interviewed. One Director of Finance refused to be interviewed, but supplied written comments with the completed questionnaire.

Data from completed questionnaires were recorded on a spreadsheet because, given the small number of questionnaires, it was not considered necessary to use specialist software for the descriptive statistics that were likely to be used. One of the co-authors entered all the data items from the questionnaires and another checked the data input. Alterations to the recorded response, as a result of comments at an interview, were only accepted after agreement between two of the co-authors. The interviews were structured around each item in the questionnaire, which enabled an analysis of the transcripts by each question in turn, rather than thematically using coding software.

EMPIRICAL RESULTS

For the purpose of discussing interviewee responses, the analysis of Likert scale responses has been divided into three sub-sections, focusing on performance management and behavioural responses (Tables 2 and 3), perspectives on the AC and auditors (Table 4), and assessment of the overall effects of the UoR system (Table 5). This grouping means that the descriptions and analyses here

Table 2
 Response to Questions on Performance Management and Behavioural Responses to the Scoring System

<i>The Use of Resources (UoR) Assessment</i>	<i>Min-Max</i>	<i>Median</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Coeff. of Var.</i>	<i>Agree</i>	<i>Neither Agree Nor Disagree</i>	<i>Disagree</i>	<i>No View</i>
B5 The assessment indicators of Key Lines of Enquiry (KLoE) have:									
i provided my local authority with a clear picture of what is expected of them by local citizens	1-4	2	2.15	0.93	0.43	10%	20%	70%	
ii provided my local authority with a clear picture of what is expected of them by Central Government	2-5	4	3.60	0.94	0.26	70%	10%	20%	
iii increased the workload of my local authority	2-5	4	4.20	0.89	0.21	90%	0%	10%	
iv reduced my local authority's freedom in deciding what is best for local citizens	1-5	4	3.30	1.17	0.36	60%	5%	35%	
v helps my local authority to focus on what should be improved in order to obtain better scores	4-5	4	4.35	0.49	0.11	100%	0%	0%	
B6 A local authority's score will drop if it does not continuously improve its performance on the indicators	2-5	4	3.80	0.89	0.24	80%	5%	15%	

Table 2 (Continued)

<i>The Use of Resources (UoR) Assessment</i>	<i>Min-Max</i>	<i>Median</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Coeff. of Var.</i>	<i>Agree</i>	<i>Neither Agree Nor Disagree</i>	<i>Disagree</i>	<i>No View</i>
B13 The published scores show a significant improvement since 2002:									
i the scores are a fair reflection of performance	2-5	4	3.55	0.83	0.23	65%	20%	15%	
ii the scores rose because local authorities knew where to improve through the indicators provided	3-5	4	4.10	0.55	0.13	90%	10%	0%	
iii the assessment indicators become easier to achieve after a number of years	1-4	2	2.50	0.95	0.38	20%	20%	60%	
B14 Local authorities with more resources are likely to achieve better scores	2-5	4	3.75	1.12	0.30	65%	15%	20%	
B15 The scores allocated for each assessment have helped my local authority target areas for improvement	3-5	4	3.95	0.39	0.10	90%	10%	0%	
B16 My local authority puts more effort and focuses on the areas where performance is worse	3-5	4	3.95	0.60	0.15	80%	20%	0%	
B17 Focusing on easier indicators will improve scores more than focusing on the worst performance areas	2-5	3	3.05	1.00	0.33	40%	20%	40%	
B18 Making use of the appeal process:									
i would increase the chances of obtaining improved scores	1-5	2.5	2.60	0.88	0.34	10%	40%	50%	
ii would damage our relationship with auditors	1-4	3	2.85	0.99	0.35	35%	20%	45%	
iii would invite more news coverage	1-4	3	2.90	1.02	0.35	35%	30%	35%	
iv would increase costs	1-4	4	3.20	1.06	0.33	60%	5%	35%	

are not sequenced in the same order that they appeared in the questionnaire. The original questionnaire numbering has been retained in the tables. The questionnaire also had a section A (accounting) and a section C (dealing with the CPA and CAA), but – with one exception (in Table 5) – the results are not reported in this paper.

Full results on the five-point Likert scale are reported in the tables, though the exposition will concentrate upon the summary ‘Agree’ and ‘Disagree’ scores in the right-hand columns of Tables 2, 4 and 5. The reason for this approach to the analysis is that there were marked differences in the way in which particular respondents used the available spectrum of scores: some used the full 1–5 range whereas others concentrated their answers in the middle 2–4 range. With only 20 respondents, the numerical values on the Likert scale are sensitive to divergent scoring practices. Checking the interview transcripts suggested that such differences related more to personal scoring styles than to strength of agreement/disagreement. Therefore, combining 4 and 5 (Agree) and 1 and 2 (Disagree) is appropriate for results reporting. Results of the responses show the question number, together with the percentage of respondents agreeing and not agreeing with the statement in the questionnaire. Direct quotations from respondents are provided in order to give some insights into the reasons for the choice of answers in the questionnaire. In accordance with undertakings provided to respondents, these quotations are not attributed.

Performance Management and Behavioural Responses to the Scoring System

Table 2 reports the answers relating to auditees’ perceptions of the UoR scoring system and on possible behavioural responses. The responses to B5 show how the respondents, who were all personally involved in the UoR process, saw the UoR as communicating the expectations of central government (**B5ii**: 70% Agree; 20% Disagree), but not those of local citizens (**B5i**: 10%; 70%):

I don’t think anybody ever asked the local citizens what they wanted. I think the Audit Commission and the Government know what they want and they presume that that’s what the citizen wants.

It’s not the local citizens that are setting the targets here; it’s the Audit Commission and Central Government . . . Because what the citizens want are their bins collecting, their kids educating, their grandparents looking after.

A substantial majority went further, agreeing that the UoR ‘reduced my local authority’s freedom in deciding what is best for local citizens’ (**B5iv**: 60%; 35%):

. . . you can progress very well to become a 3 star authority by playing to the rules and by following the rules. But then that means that CPA is dictating your direction, not what the citizens and what we should expect as leaders of the organization.

I think there is an important relationship with the local community that we should be able to demonstrate to them that we are providing services in a way which does represent value for money, I think that’s an important part of accountability.

The UoR assessment requirements were seen to have added to the workload of local authorities (**B5iii**: 90%; 10%), although there were different views of the significance of this additional workload:

... to a certain extent there is an additional workload in providing the evidence and collating it. But, you know, if you've got your act sorted, that shouldn't be terribly onerous... now it's just an ongoing part of life and, you know, we're a public body, we have to be very accountable.

... the CPA was a very resource-intensive process... we are devoting significant amounts of resources into that to make sure that we are supporting the process and putting forward the best picture that we can for the Council.

Respondents unanimously agreed that the UoR promoted a 'focus on what should be improved in order to obtain better scores' (**B5v**: 100%; 0%):

I think where it has been useful is in the small minority of authorities who've done very poorly because I think that [has] sort of generated pressure for improvement in those authorities, which the local citizens have benefited from.

There is evidence of reflection on how to respond to the UoR scoring system, and concerns about whether continuous improvement on the indicators is required to avoid drops in scores (**B6**: 80%; 15%):

... if we maintain performance, our numbers shouldn't drop... you can't just keep making it harder and harder, I mean that's just not what life is about.

I was at a CIPFA meeting on this [and] they were mentioning that a lot of the ideas in the new criteria were drawn from an Audit Commission publication called World Class Financial Management. And I asked 'Well if we have to be world class to get a Level 3, what do we have to do to get a Level 4?'

Two questions were used to discover whether the UoR scores encouraged each local authority to target areas for improvement and focus on particular areas of performance. Perhaps unsurprisingly, local authorities focus on the areas where scores are low (**B15**: 90%; 0%) and where performance is worse (**B16**: 80%; 0%):

If the inspectors say that 'In our view you will be better if you do A, B, C and D and you will get a higher score from us if you do A, B, C and D', we will endeavour to do A, B, C and D.

We'll implement it as far as we can and they'll judge us and say 'Yes, you've done it' and then they'll give us a higher score. And we will all call that improvement. The question is does it actually mean that we're doing things better? I think it does, certainly in most cases, I think we can point to... actually improving the way that we do things.

Yes, so we put it on the lower scoring areas, yeah, to try and get those up. So Value for Money was... our lowest score... so we concentrated on that.

However, there was a split response to a question asking whether the focus was on 'easier indicators' or on 'worst performance areas' (**B17**: 40%; 40%):

I'd disagree about focusing on easier indicators because I'm not sure there are any easier indicators.

I think in honesty, it's a combination of the two. The things that we can do easily, we'll do. The things that we think are important to improve upon that are harder, we'll do. The bit in the middle, is where we have to make a judgement.

A large majority considered that local authorities with more resources are likely to achieve better scores (**B14**: 65%; 20%):

If I had more staff, yes I could probably commit people more to just this data collection exercise... That input might be disproportionate in my view.

A minority, in contrast, had the view that other issues were more significant than the availability of resources, so that high UoR scores were obtainable by smaller local authorities:

I think for me, it comes down to leadership, political and officer. You can give me all the resources I need and it doesn't [matter] a jot if we're not focused on outcomes and discipline.

The CPA system includes an appeals process, allowing a local authority to have its scores reviewed and possibly amended. Making use of the appeals process was not considered likely to lead to higher scores (**B18i**: 10%; 50%) whereas it would involve higher costs (**B18iv**: 60%; 35%). Not surprisingly, the views of individual local authorities appeared to be heavily influenced by their experience of the appeals process:

We challenged on two scores... We were successful on [one]... but not on the [other]... but that one change alone was sufficient to give us the overall change. And I was very pleased with the appeal process. I thought it was very fair the way they did it.

You can only formally appeal against... it's got to be two scores... It backfired because what actually happened, even though you're appealing against two of the five lines, they review all five. And so the [one] that was our real issue we won and that was put back up, the [other] which we appealed against stayed the same, but they actually knocked down on one of the other ones...

... we had to put a lot of management time into [an appeal] that we could have put into something else... and it was just a meaningless exercise...

A fundamental issue with all performance measurement systems is whether the trend of improvements in scores is an artefact of the system or does reflect genuine improvements in service delivery. In the context of a question about trend improvements in scores, a large majority considered that the higher scores were a fair reflection of performance (**B13i**: 65%; 15%). There was strong disagreement with the statement that the indicators had become easier to achieve (**B13iii**: 20%; 60%). However, there was acknowledgement

that 'The scores rose because local authorities knew where to improve through the indicators provided' (**B13ii**: 90%; 0%):

We're all intelligent people and we know how to play the game. And so what you do is you identify the areas where you're weaker and you make sure that those are the areas you improve in.

...you're not working in isolation. You're not reinventing wheels. You are taking learning from others and then building on the back of it. And that's why I said it's easier to achieve that after a number of years because you know what best practice looks like.

We asked respondents for their views on the relative difficulty of achieving high scores on the five UoR themes. The results reported in Table 3 are clear that the VFM theme was considered to be the most difficult; **B21v** records 0% (easiest/easy) but 80% (hard/hardest):

Value for Money... I think that is the one that is the hardest to change. All the others, if I have to be frank, I can drive just through my own intervention and professional accounting and financial leadership.

Very much so, [VFM is] the most subjective. I think it's the one the [auditors are least comfortable with because the guidance was less clear, it relies on the self-assessment, it relies on more knowledge or understanding the context of things... The Value for Money is another lever arch file for evidence, self-assessment, lots of discussions...]

...on Value for Money, you need that quantitative evidence base, so you need to be able to show that you are delivering high quality services for low cost. And that's putting together the performance regime with the cost regime and actually getting that evidence together is quite challenging... you need to show you've got the processes in place as well.

Next in terms of difficulty was Internal Control: **B21iii** records 25% (easy) and 30% (hard/hardest). There were no responses at 'easiest' and 40% of responses were at 'between'. The other three themes (Financial Reporting, Financial Management and Financial Standing) received similar scores. In terms of 'easiest' alone, Financial Reporting had 35% and Financial Standing 40%. The interview responses clarified that Value for Money and Internal Control were seen as less specific than the other three themes and thus more open to judgement. In the case of the Internal Control assessment, factors could influence the score even though they may not be related directly to internal control functions:

...the fact that there is [a public interest report] means that our internal control score [is affected]; you cannot have an internal control score of more than one, if you have a public interest report. Yet, if you read the public interest report, there is absolutely no criticism of any of our internal control systems.

Two questions sought to establish the perceptions of respondents as to the difficulty at theme level of moving upwards through the 1–4 scale (**B19**), and

Table 3
Responses to Questions on the Level of Difficulty of the UoR Themes, Improving Scores and Risk of Decline in Scores

<i>The Use of Resources (UoR) Assessment</i>		<i>Easiest</i>	<i>Easy</i>	<i>Between</i>	<i>Hard</i>	<i>Hardest</i>	<i>No View</i>
B21	Please rank the following UoR themes in order of difficulty meeting their KLoEs:						
	i financial reporting	35%	25%	10%	10%	15%	5%
	ii financial management	20%	30%	15%	25%	5%	5%
	iii internal control	0%	25%	40%	25%	5%	5%
	iv financial standing	40%	15%	15%	15%	10%	5%
	v value for money	0%	0%	15%	20%	60%	5%
<i>The Use of Resources (UoR) Assessment</i>		<i>Easiest</i>	<i>Between</i>	<i>Hard</i>	<i>Hardest</i>	<i>No View</i>	
B19	Please rank the following improvements in UoR themes' score in order of difficulty:						
	i from '1' to '2'	80%	5%	5%	10%	5%	5%
	ii from '2' to '3'	5%	90%	0%	0%	5%	5%
	iii from '3' to '4'	10%	0%	0%	85%	5%	5%
<i>The Use of Resources (UoR) Assessment</i>		<i>Low Risk</i>	<i>Medium Risk</i>	<i>High Risk</i>	<i>No View</i>		
B20	Please rank the following declines in UoR themes' score in order of risk of occurrence:						
	i from '4' to '3'	15%	15%	65%	5%	5%	5%
	ii from '3' to '2'	0%	75%	20%	5%	5%	5%
	iii from '2' to '1'	80%	5%	10%	5%	5%	5%

the risk of slipping down the scale (**B20**). With regard to relative difficulty, the results are decisive. An improvement from 1 to 2 was regarded as the easiest by 80% of respondents (**B19i**), while 85% ranked an improvement from 3 to 4 as the hardest to achieve (**B19iii**). What was required for a 2 was regarded by interviewees as achievable through processes that should be carried out by a competent local authority. In contrast there was some difficulty in understanding what was required to achieve a 4 score, coupled with scepticism about whether those local authorities ranked at 4 were actually performing better than those with a 3 score:

If you're on 1, to go to 2 it's fairly easy... you know you've got to do something better to improve haven't you? 3 to 4 on the far extreme, that's like sometimes impossible for small authorities like ourselves.

... in many ways between Level 2 and Level 3, it's just proving that you've had all the systems and all the processes in place for a year. So to be honest, moving from Level 2 to 3 was relatively easy...

... from 3 to 4 there's a massive leap, because it's all about innovation.

Our discussions with interviewees about the difficulty of moving from level 3 to level 4 led to a number of comments which cast doubt on whether it is worthwhile for some authorities to seek to achieve the highest level score:

It's not worth it [getting to Level 4]. Some of the things in there which would mean employing additional staff... costing £30,000 a year... I can't argue that on a business case.

To actually get us to a Level 4 would mean a huge amount of resources... you've got to have that balance, do we spend more money on additional resources to get a Level 4 or are we happy with a Level 3?

To get to a 4 is just not worth it. I'd like people to be spending more time on actually trying to improve the Value for Money on the services that we're delivering to have a better understanding of where our costs and expenditures are going.

... it's interesting that last year I said to the auditors 'I need to talk about how we get to Level 4, because we're at Level 3' and the auditors said 'That's not value for money for you, don't do it.'

The intention of question **B20** was to establish perceptions as to the relative probability of, for example, a decline in the scoring assessment from 2 to 1. Some interviewees had initially ranked their answers on the basis of the potential costs of a decline from 2 to 1, which might include dismissal. We made the intention of the question clear at each interview and some respondents made changes to their pre-completed questionnaire. The results are again clear-cut with 80% ranking a decline in the assessment from a 2 score to 1 score as low risk (**B20iii**) whereas 65% ranked the decline from a 4 score to 3 score as high risk (**B20i**). The reasoning again related to the perceptions that requirements to obtain a 2

score were relatively clear compared to the perceived uncertainties attached to gaining or keeping a 4 score.

Perspectives on the Audit Commission and Auditors

Table 4 reports the auditees' perceptions of the AC and its appointed auditors, specifically in relation to the UoR. The responses in Table 4 show much greater variability than those reported in Tables 2 and 3. One question on which there is a clear majority opinion is whether the AC consulted local authorities in an appropriate way before the indicators and assessment rules were determined (**B3**: 70% Agree; 25% Disagree). This represents a positive view on the consultation process, but there were several authorities which questioned their ability to effect change to AC proposals:

I think it's the right thing to do. But what you've got in local authorities is a very broad community of different organizations... and they've all got different interests and different needs. And they all get together in different lobby groups and some lobby groups are extremely powerful. The Society of London Councils is very powerful because they're all together, they're all in the same place and they're all very close to where the Audit Commission live and work.

More generally, opinion was split on whether having the AC as performance reviewer has reduced intervention from central government (**B8**: 35%; 40%). This shows that the supposed buffer role of the AC does not convince 40% of respondents. It appeared that opinions were split partly as a result of the different experiences of individual authorities:

You don't tend to get much direct intervention now between Central Government and local authorities. They try to put this tier of inspectors in to provide that barrier between the two.

I mean over the last five years, intervention from Central Government has increased, there's no doubt about that. And just every single little thing is directed now by Central Government. There's very little local decision-making left... The government just are there, everywhere, all pervading. And they talk local, but they don't act local, they act as one big centralizer.

Mixed results also occur in relation to the implications of a local authority having had appointed a private firm rather than the District Auditor. Although not anticipated at the time of the study, these perceptions have become more relevant given the forthcoming abolition of the AC as the reforms of the UK Coalition Government will give each local authority the power to choose its own private sector auditor. Some respondents felt unable to express an opinion on these issues as they had not had experience of dealing with auditors from both the public and private sectors. With regard to 'assessment activities', a majority of those giving affirmative or negative responses thought there was no difference between public and private sector auditors (**B9ii**: 35%; 15%), reflecting the similar backgrounds of training and experience of audit staff. However, 40% neither agreed nor disagreed and 10% expressed no view:

Table 4
Responses to Questions of the Auditees' Perspectives of the Audit Commission and Auditors

<i>The Use of Resources (UoR) Assessment</i>	<i>Min-Max</i>	<i>Median</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Coeff. of Var.</i>	<i>Agree</i>	<i>Neither Agree Nor Disagree</i>	<i>Disagree</i>	<i>No View</i>
B3 The Audit Commission consulted local authorities in an appropriate way before the indicators and assessment rules were determined	2–5	4	3.50	0.95	0.27	70%	5%	25%	
B8 Having the Audit Commission as performance reviewer has reduced intervention from Central Government	1–4	3	2.90	0.97	0.33	35%	25%	40%	
B9 In general, if a local authority is assigned to be audited by private auditors instead of the District Auditor:									
i communication with the Audit Commission will be lessened	1–5	3	3.00	1.14	0.38	35%	25%	30%	10%
ii assessment activities will not differ	1–5	3	3.22	0.94	0.29	35%	40%	15%	10%
iii judgement and scoring will not differ	1–4	3	2.74	0.93	0.34	20%	40%	35%	5%
B10 Satisfying the auditor is more important than satisfying local citizens	1–4	2	2.35	1.18	0.60	25%	15%	60%	
B26 The assessment rules for UoR are fair	2–4	3	3.15	0.88	0.28	45%	25%	30%	
B27 The auditor's interpretation of the UoR assessment rules is fair	1–4	3	2.95	1.00	0.34	40%	20%	40%	

I mean in reality, people have tended to come through similar routes as the District Audit and... they've done their training through CIPFA... so I can't say I've noticed any significant differences.

[Private sector firms] tend to have a specific public sector arm to the organization who are normally people with CIPFA qualifications, perhaps experience of working in local government. So it tends to be a similar type of workforce...

However, several interviewees commented on perceived differences of senior and junior audit staff, for example:

We've found the Audit Commission tends to look harder at matters of detail and less at matters of principle and management... My experience has always been that the senior staff in the private [sector] auditors are better than the senior staff in the Audit Commission. But the junior staff in the private [sector] auditors tend to be not as good as in the Commission because they tend to have more of a private accounting focus than a public one.

On the statement that 'judgement and scoring will **not** differ' between public and private sector auditors (**B9iii**: 20%; 35%), the majority was reversed, again with a high proportion of respondents (40%) neither agreeing nor disagreeing. Several of the interviewees drew a comparison between public and private sector auditors and one interviewee contrasted two different private firms:

The technical advice we get from the private sector auditors I don't think is as good as the technical advice from the Audit Commission... So I actually prefer having the Audit Commission. They're more pedantic... but the robustness of the opinions they give I think is better.

I've found that the private sector auditors tend to be slightly more generous than the Audit Commission. Now I don't know why that is but it's just my experience... it may well be that the private sector people see much bigger problems elsewhere in the general market than they do here and so they're a little bit more relaxed about it.

I think the Audit Commission are more focused and more diligent and more strict than my experience of the private sector. So I think if we had [a private sector firm] auditing our Use of Resources, we would get a higher score more easily than [from] the Audit Commission.

I mean sometimes these things come down to individuals. I would probably say that [private sector firm A] took a very rigorous approach in many instances... I think [private sector firm B] are a more pragmatic organization and the relationship's probably been better as a result.

Even when there is a private sector auditor, the AC remained a prominent actor in formulating audit guidance and there was a split on whether communication with the AC would be lessened when there is a private auditor (**B9i**: 35%; 30%).

We asked respondents to comment on whether satisfying the auditor is more important than satisfying local citizens. A majority disagreed (**B10**: 25%; 60%). Here are two typical perspectives:

What we're about is public service to the residents and customers. That should be the focus. What flows from that then is good performance. What flows from that then is an Audit Commission which comes in and confirms that. So you put the citizens and the customers first...

An organization that's only interested in satisfying the auditor has lost its way.

Those who agreed with the importance of satisfying the auditor tended to see the issue as a balance in matters that might not be important to citizens in a routine situation, but which would damage the reputation of the local authority if a poor report were to be received and publicized:

We've got to do both I think because otherwise the Audit Commission will, you know, just give us poor scores and that's damaging for the Council's reputation. And then we'll lose funding from the government and all sorts of things. So I think it's a rock and a hard place really, we've got to do both for me.

... some of the things in Use of Resources is real textbook accounting stuff and the people out there don't really care that much about it. So I would argue that sometimes we are actually just doing things to please the auditors and not the local citizens.

We asked whether respondents considered that the UoR assessment rules and the auditors' interpretations of those rules were fair. The results are mixed. A majority (45%) agreed that the assessment rules were fair, though 30% disagreed (**B26**), while opinions were split on the fairness of the auditors' interpretation of the rules (**B27**: 40%; 40%):

Generally yeah, [the assessment rules are fair] because they're done independently by the Audit Commission. They use the same criteria for all of us across local authorities. The Key Lines of Enquiry are published and available. They are consulted on you know... on the face of things it's a fair system... and the Audit Commission have worked very hard to remove the local judgement of the auditor from the whole assessment process...

Those who disagreed with the application of the rules by an auditor seemed to be speaking from a particular experience of receiving a score which, although not necessarily poor in absolute terms, was below what they considered appropriate relative to other local authorities. For example:

... my medium-term financial strategy mirrored [another local authority, which] was supposed to be an excellent authority; mine is deemed to be poor, yet I copied theirs. So you know, how much is there consistency with auditors?

Notwithstanding the 40% disagreeing with the fair interpretation statement, there has been a limited number of appeals. Opinion is again split on whether making use of the appeal process would damage the relationship with auditors (**B18ii**: 35%; 45%, in Table 2):

I think my view is you shouldn't get to the stage of appeal. You should have discussed it with the auditors to have made your point and then at some point in time you have to agree a compromise. I'm not certain there's a great deal of merit in going to appeal.

... because of the reputational issue, we didn't really want to appeal... we didn't want to antagonize our auditors and our relationship manager, by going through an appeal and challenging them directly.

While some interviewees did not feel that an appeal would necessarily damage the relationship with their auditors, there was often an apparent reluctance to use the appeal process. As reported in Table 2, the main factors behind the limited number of appeals were the belief in low chances of success and the expectation of higher costs.

The Overall Effects of the Use of Resources Assessment

Table 5 reports the answers relating to the overall assessment of the UoR. There are various criteria on which such an overall assessment might be made. Strikingly, 75% of respondents agreed that the UoR has been a worthwhile innovation, whereas only 5% disagreed (**B28**). This result needs to be remembered when assessing the weight to be placed on criticisms that respondents recorded:

I think it has helped in terms of structuring how Finance blends in with the rest of the organization or how Finance works with the rest of the organization. And appreciating that the work of Finance and how we actually pull things together has an impact on the overall organization as well... I think it's allowed me to take various messages to members and to put it out in public documents, which if the Use of Resources wasn't there, there wouldn't be a need as such, I wouldn't have as great an urgency to get that message across.

It's been a worthwhile innovation in that overall it has forced local authorities to concentrate on certain issues. And they're not necessarily the public-facing things... a lot of the things are internal to the organization, governance and the like and I think that's been really worthwhile.

A large majority (65%) agreed that the UoR gave a fair reflection of their local authority's relative position, with 30% disagreeing (**B12i**). On whether the UoR had promoted competition among local authorities, 70% agreed and 20% disagreed (**B12ii**). The interviews suggested that there had been a dual effect. It had made local authorities aware of how other authorities were being scored, while also promoting collaboration, both informally between two or more local authorities and on a more formal sub-regional basis. For example, chief financial officers of local authorities in part of the Yorkshire and the Humber region met each quarter to discuss issues of mutual interest, including CPA processes and results:

Yes, it does promote competition because... we don't want to be worse thought of than our neighbouring authority... it's not competition for the sake of competition but it does generate that competitive edge where we want to be as good as them...

I'm not aware of competition among local authorities. In fact, I think over the years there's been much more of a move towards collaboration between local authorities, of sharing best practice, far more than there used to be in the past.

Table 5
Responses to Questions on Overall Effects of the UoR Assessment

<i>The Use of Resources (UoR) Assessment</i>	<i>Min-Max</i>	<i>Median</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Coeff of Var.</i>	<i>Agree</i>	<i>Neither Agree Nor Disagree</i>	<i>Disagree</i>	<i>No View</i>
B12 The UoR rankings published by the Audit Commission: <i>i</i> are a fair reflection of my local authority's relative position <i>ii</i> have promoted competition among local authorities									
	2-5	4	3.40	0.99	0.29	65%	5%	30%	
B22 The UoR assessment contributes to: <i>i</i> increased efficiency in local authorities generally <i>ii</i> increased efficiency in my local authority <i>iii</i> increased effectiveness in local authorities generally <i>iv</i> increased effectiveness in my local authority									
	2-4	3	3.11	0.81	0.26	35%	35%	25%	5%
	2-4	3	3.20	0.83	0.26	45%	30%	25%	
	2-4	3	3.05	0.85	0.28	35%	30%	30%	5%
	2-4	3	3.10	0.85	0.27	40%	30%	30%	
B23 The UoR exercise has improved: <i>i</i> public trust in my local authority <i>ii</i> public participation in my local authority's activities <i>iii</i> public trust in local government generally <i>iv</i> public participation in activities organized by local government generally									
	1-4	2	2.55	0.83	0.32	15%	30%	55%	
	1-4	2	2.05	0.76	0.37	5%	15%	80%	
	1-4	2	2.42	0.69	0.29	5%	35%	55%	5%
	1-3	2	2.00	0.67	0.33	0%	20%	75%	5%
B28 The UoR assessment has been a worthwhile innovation	2-5	4	3.80	0.70	0.18	75%	20%	5%	
Comprehensive Performance Assessment									
C2 The published Comprehensive Performance Assessment results have influenced the decision of local electors: <i>i</i> on whether to vote in local elections <i>ii</i> on which political party to vote for									
	1-3	2	1.80	0.62	0.34	0%	10%	90%	
	1-3	2	1.70	0.66	0.39	0%	10%	90%	

An explicit objective of the UoR has been to improve the efficiency and effectiveness of local authorities. On efficiency, the responses are mixed, though respondents were more willing to attribute positive effects to their own local authority than to local authorities more generally (45% on **B22ii** as against 35% on **B22i**). However, the small number of respondents must be remembered. Similar split results occur for the effectiveness statements, with 40% crediting the UoR for contributing to their own authority's improvement but 30% disagreeing (**B22iv**). The positive comments typically referred to the improvement in financial management and control procedures that contributed towards a good UoR assessment score, for example:

Well I think it increases the effectiveness because it increases your overall systems controls that are put in place and there are aspects in terms of particular performance which are in the Use of Resources assessment performance monitoring that should lead to more effective services.

Those expressing a negative viewpoint referred to other pressures to improve the use of resources in the local authority that they considered to be much more significant than the UoR assessment:

... there are many more drivers to increasing your efficiency, the biggest driver for that was Gershon [a central government efficiency programme] ... the second biggest driver for that are your politicians ... the whole way the grant settlement works with government has meant that we have to look to our efficiency ... keeping the Council Tax down is the biggest driver for efficiency ...

Higher level claims in terms of the promotion of trust and transparency have been an important facet of the advocacy of performance measurement systems. This is where the auditee responses dash the high expectations attached to UoR and the CPA of which it was then part. There are large majorities who disagree that the UoR has improved public trust in their local authority (**B23i**: 15% Agree; 55% Disagree) or in local government generally (**B23iii**: 5%; 55%). An even more pronounced pattern of disagreement occurs in relation to statements about the effects on public participation. Only 5% agree (as against 80% disagreeing) (**B23ii**) that the UoR has improved public participation in their authority's activities, similar to the 0% (as against 75%) (**B23iv**) in relation to activities organized by local government generally:

I think the public are interested at both ends of the activity chain, if you like. They're interested in how much we take from them each year in council tax ... and they are interested in the quality of the services they get, at the other end of the pipe ... I don't think that they are interested in the mechanics of what goes on in between and ... that is Use of Resources.

The question in relation to political participation was couched in terms of the much higher profile of the overall CPA score rather than the more limited scope of the UoR assessment. The responses were decisively against any effects:

0% agreed (as against 90% disagreeing) (**C2i**) that the CPA has influenced the decision of local electors on whether to vote:

It's had no impact on whether people vote in local elections. If it did, we would have seen the turnout increasing and we haven't. It's remained relatively stable in our area.

The electors will vote if they think they want a particular candidate in their ward who will support them in trying to get better services for their ward . . . Nothing whatsoever to do with the CPA . . .

The result was identical in relation to the choice of party to vote for (**C2ii**; 0%; 90%):

. . . it's national issues that are important in local elections . . . the Liberal Democrats and the Tories come into their own and they get loads more votes. And then if there's a Tory government, in five years time the Tory votes will start falling in local government and Labour votes will start increasing. National opposition always gets more votes in local government elections, it's amazing.

The postulated connection of local government performance auditing to the democratic process does not appear to exist.

DISCUSSION AND INTERPRETATION OF THE FINDINGS

Given the backcloth of *ex ante* claims by the promoters of the UoR (principally the AC and the 1997–2010 Labour Government) and *ex post* denunciations of the AC and its centralized assessment systems (by ministers in the incoming Conservative-Liberal Democrat Coalition Government), the nuanced judgements of our survey respondents stand out as striking. The auditees come across as intelligent actors in the assessment process, not merely as passive recipients of an externally imposed structure. This observation supports a view that the perspective of auditees is deserving of a higher profile than is found in the literature and that 'The auditee is undoubtedly a complex being: simultaneously devious and depressed; she is skilled at games of compliance, but exhausted and cynical about them . . .' (Power, 2003, p. 199).

The auditees, nevertheless, appeared in some respects to be in an exposed position. The CPA regime imposed on local authorities in England has been in a process of continuous change since its introduction in 2002, through to its transformation into CAA in 2009 and its abolition in June 2010. These changes in structure, processes and scoring systems result in auditees having to adapt organizational and evidential responses to the system. For example, the added workload to meet UoR assessment requirements and the need for continuous improvement merely to maintain the existing scores resulted in some critical comments in response to questions **B5iii** and **B6** above. These findings are consistent with a view that 'contrived randomness' may form an ingredient of regulation inside government (Hood et al., 1999) which is maintained by a near continuous cycle of reform (Power, 2004, p. 778) of the regulatory process.

The exposure of auditees is accentuated by the ambiguity of the relationship between local and central government in England. While the UK central government will often promote, rhetorically, the importance of local government, its actions are less supportive. The views of the majority of respondents in this survey were that UoR reduced the freedom of local authorities (**B5iv** above). The auditees believed that KLoEs provided a strong indication of what was expected of them by central government rather than by local citizens (**B5i** and **B5ii** above). These findings seem consistent with the analysis of Kelly (2003), who drew attention to the challenges facing the AC in it being construed by local authorities as an enforcement agency of central government and to the dangers of the CPA system further weakening the political accountability of local councillors.

In terms of overall effects, the auditees believed that the UoR was a worthwhile innovation (Table 5, **B28**: 75% Agree; 5% Disagree), a decisive result from a region which, as Table 1 shows, contains strong and weak performers. The auditees' criticisms of the UoR therefore should be interpreted in light of this overall judgement. The respondents were Directors of Finance (or their nominated respondent, always at a very senior level), many of whom emphasized that the UoR requirements were consistent with best professional practice. What local authorities were required to do was what they should be doing. Because 'good financial housekeeping' had become part of external requirements, this had raised its profile and salience for the political and managerial leadership of the council, something which respondents had found helpful. These views appear to be consistent with Power (1996 and 1997) on the importance of 'making things auditable' and, more generally, of the impact of 'management by numbers' in the public services (Hood, 2007b).

Also decisive was the rejection of the statements that the CPA had improved public trust in their local authority (**B23i**: 15%; 55%); had increased public participation in their local authority's activities (**B23ii**: 5%; 80%); and had influenced decisions on whether to vote in local elections (**C2i**: 0%; 90%). Indeed, some respondents viewed these expectations, explicit in the advocacy of centralized performance assessment of local authorities, with wry amusement. Whereas responses on financial housekeeping were highly positive, these results on improving trust and democratic accountability were strongly negative.

There is literature on these broader issues. James and John (2007) found a statistically significant impact on the voting share of incumbent political parties in the case of poor CPA scores, but no effect from high scores. Their result holds when appropriate controls are included in the regression and is robust to alternative specifications. However, James (2011), using field and laboratory experiments, reports no evidence of direct effects of performance information on citizens' intention to vote.

Although our respondent group was local government officers, they were of sufficient seniority to have close contact with the political leadership. For reputational and career-threatening reasons our respondents emphasized the

avoidance of low UoR scores (something they found manageable) and limited their efforts to secure very high scores (something they regarded as either unattainable or an unjustified use of council resources). Again using CPA data, Boyne et al. (2010) found that senior management turnover increased when change of political control of an English local authority interacted with low organizational performance. When our survey was conducted, we observed that there had been managerial turnover in the worst UoR performers, with respondents there emphasizing the commitment to improvement rather than disputing the scores awarded in earlier rounds. In such cases, the timing of the response in relation to the audit of performance is an issue to be considered by researchers – the previous incumbents might have been more defensive.

There were mixed views regarding the extent to which the UoR had improved efficiency and effectiveness, with more attributing benefits to their own authority rather than to local authorities in general (**B22**). A high majority of respondents believed that scores had improved because local authorities knew where improvements were needed to secure higher scores, although this does not preclude the possibility that performance had genuinely improved, either in specific areas or across the board.

Similarly, there were mixed views on related matters such as the impact of the assessment system on relationships with the auditor and the extent to which direct intervention by the central government was reduced. There were some broadly positive views on the fairness of the UoR assessment rules and results, and most agreed that the UoR rankings increased competition between local authorities, but also encouraged learning through informal collaboration. These findings show that competition and mutuality are not necessarily competing forms of control but may co-exist within structured systems of regulation inside government.

There was some scepticism as to whether local authorities with the highest score of 4 were genuinely better performers than those scoring a 3. This seemed to reflect the subjectivity of parts of the scoring system, particularly the VFM scoring. Uncertainties may also arise from the aggregation of a series of individual themes and KLoEs into an overall UoR score, as the construction of such composite indices are influenced by the impact of random variations and alternative aggregation methods (Jacobs and Goddard, 2007). Several respondents argued that they could not justify the resources that would be required in seeking to improve an existing score of 3 to secure a 4, a rating that in any case might not be sustainable. However, regular changes to the methodology and scoring systems meant that there was a perceived need for continuous improvement by even the most successful local authorities.

Neither extreme of decoupling or colonization resulted from the imposition of the UoR assessment. Interviewees perceived the UoR as being something of a burden on their local authority, but recognised that UoR-driven procedures often supported improvement in financial management practices of which they

approved on professional grounds and they sought to link these changes to the wider roles of the local authority. Moreover, the frequent criticism of some elements of the UoR suggested that colonization of the processes had not occurred. The critique included: the imposition of central government policy over local authorities; the potential for variability of auditor judgement; the subjectivity of the VFM assessment; and the cost burden of the CPA process.

CONCLUDING REMARKS

This paper has cast new light on the perception of senior finance officers of local authorities in England in their capacity as auditees. In particular it reports the views expressed, typically by Directors of Finance, on the UoR assessment of local authorities in the Yorkshire and the Humber region. It responds to the call from Power (2003) for more research on auditees. How auditees react to a comprehensive scheme of external assessment of financial management is an under-researched aspect of NPFM.

This study adds to our understanding of the impact and behavioural responses to an externally imposed performance measurement and audit regime in the public sector. It reflects the significance of the role of auditees within such external evaluation systems. The empirical data are based upon the perceptions of a particular class of auditees of a (then) existing performance evaluation regime. The later abandonment of the CAA, and hence of the constituent UoR, by the UK Coalition Government means that this study cannot be directly replicated. However, the structure and findings of the study may be valuable for research of similar performance evaluation regimes in the future.

It is appreciated that there are limitations to this study, some of which might have been overcome through further research had the UoR system continued in existence. In order to improve the response rate and because of time and cost constraints, the study was restricted to local authorities in the Yorkshire and the Humber region. It may be that views in other regions differ from those presented in this study. However, the number of authorities in Yorkshire and the Humber and the mix of single tier and county councils with district councils are similar to most other English regions, except for London and the South East. Moreover, the mean UoR scores in the region were similar to those in other regions and to average national scores.

If the UoR system had continued, the approach used in this study could have been extended to other English regions. More generally, the approach could be adapted to performance audit regimes in different sectors, countries and contexts. However, we would caution against attempting this on a limited timescale in view of the time and effort required to persuade local authorities to respond to both questionnaire and interview requests.

Having made that caveat, the experience in the interviews was highly positive in respect of the interest shown by interviewees in the study. Although we only asked for one hour of interview time many interviews lasted beyond that, with

interviewees offering further information to the researchers if required. The methodological decision not to use a postal, email or web-based questionnaire was justified as the likely response rate would have raised serious questions about non-response bias, whereas this study's questionnaire achieved a 91% response rate. An extension of this type of study might usefully seek out differences in the perspectives of high-performing, low-performing and turnaround local authorities through survey and case study work.

The decision to target officers – rather than the elected leadership – as representing the auditee was justified. The UoR is confirmed as an example of Hood's (2007a) bureaucratic transparency, under which external experts report on the performance of internal experts. Whereas the overall CPA results generated significant member interest, the focus – as Michael Power's analysis would suggest – was on the scores and not on the underlying activities. There was a strong sense that, whatever the official labelling, audit and inspection had become overlapping and sometimes indistinguishable features of 'regulation inside government' (Martin and Davis, 2008).

All four elements of the Hood et al. (1999) schema are visible in this study of the UoR system. It was hierarchically imposed on auditees. There was competition between local authorities seeking to maintain and improve their scores, but this was tempered by elements of mutuality. Local authorities in the region talked to each other about good practices and actions that might improve performance scores. This behavioural response came from auditees with common professional backgrounds and connections. Contrived randomness was present within the UoR system, largely as a result of continuous change in elements and scoring mechanisms.

Outside the scope of this study was the dramatic fall of UoR mean scores in 2009 (see the final column of Table 1) in the first year of CAA. This mirrored what had happened in 2005, on the introduction of *The Harder Test*, and occurred both nationally and in Yorkshire and the Humber. This may have been a factor in the lack of support for the existing system on the part of local authorities and their associations when the 2010 CAA was abandoned in mid-process,⁵ and the forthcoming abolition of the AC announced three months later. The UoR might be seen as an attempt by the AC to reconstruct local authority financial management in the mould of its 2005 publication on *World Class Financial Management* (Audit Commission, 2005b), a link noted by one of our respondents.

The lack of matching of auditor with auditee remains an issue of concern. Our experience in this study was that there was no difficulty in having conversations with the AC (as UoR designer and co-ordinator) or with auditors with client engagements, provided that those discussions did not relate to a particular client. However, research that attempts to explore the auditor-auditee relationship in the public sector remains a risky undertaking. This is worth attempting in further research, provided that the possibility of failure through denied access is acknowledged at the design stage.

NOTES

- 1 This excludes almost 10,000 small locally-governed bodies such as town and parish councils.
- 2 The circumstances surrounding the abolition of the AC are outside the time frame of this paper, but will be explored in a future paper.
- 3 Expenditure is defined as gross capital expenditure plus revenue expenditure. The calculations use data provided by the Department of Communities and Local Government (2012) and the Treasury's November 2011 issue of GDP deflators (Treasury, 2011).
- 4 A copy of the questionnaire is available, on request, from the corresponding author.
- 5 Auditors had not finalized UoR scores for local authorities at the point that work was stopped in May 2010 and the AC therefore did not report any scores for 2010.

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