

Academic paper

Twenty-five years of the Accounts Commission for Scotland

Observations from an academic perspective



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OF THE ACCOUNTS
COMMISSION

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COMMISSION FOR SCOTLAND:**

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Introduction

A question going through a number of heads at this moment may be, why is someone who does not and indeed never has worked for the Accounts Commission been asked to give a presentation about the Accounts Commission? This is a very valid question. In answer, I believe that from a position of complete impartiality, by setting out a number of objective observations in this short presentation, I can provide you with a taster of both the extent to which the Accounts Commission for Scotland has evolved during its lifetime and a flavour of audited bodies' perceptions of the Commission. I can do this because I have been conducting doctoral research solely on the Accounts Commission for over three years. Consequently, I believe all of my observations to be informed observations.

Undertaking a PhD involves a sustained period of in-depth research which is of a very narrow focus, either in an area which is unique in as much as it has not been researched before, or in an area which has been researched before but the manner in which it has been researched is unique. Either way it has to contribute something original to knowledge either in an academic or in a practical sense. My PhD falls into the former category due to the fact that there has been no in-depth research conducted on the Accounts Commission to date. Alternatively, a very apt definition of a PhD is: 'A PhD is about finding out more and more about less and less until one eventually knows everything about nothing' (Cryer, 1996). The precise title of my PhD is '*The Accounts Commission as an Agent of Public Sector Accountability*.' The purpose of the thesis as a whole, is to provide in-depth, up-to-date academic scrutiny of the role of the Accounts Commission for Scotland, to go some way towards filling the gap existing in the literature in this area by establishing the way in which the Accounts Commission enhances the accountability of local government and the NHS in Scotland. To do this, a theoretical framework has been designed to analyse the effect the Commission has had on the accountability of the bodies it audits. This framework draws on the work of Stewart (1984), Marshall (1986), Stanyer (1974) and Sherer and Kent (1988). The theoretical framework will be applied to the findings of the research which will be gathered from a full review of the literature which refers to the Accounts Commission, scrutiny of the Commission's output (e.g. Annual Reports, VFM Reports, Management Papers), a questionnaire survey of all the bodies audited by the Commission and the conduct of thirty-two elite interviews.

Unlike the majority of speakers today, I intend to look back and not forward. Firstly, my interpretation of the origins and evolution of the Accounts Commission will be outlined by exploring the rationales for the establishment of the Commission and by briefly examining the expanding statutory role of the Commission during the last twenty-five years coupled with the resulting developments in the Commission's organisational form. Secondly, the principal findings of the questionnaire survey of all the bodies audited by the Commission will be provided to give a flavour of the audited bodies' perceptions of the Commission. These will be enhanced a number of observations stemming from the information gathered in the elite interviews.

1. The Origins and Evolution of the Accounts Commission for Scotland

The first meeting of the Accounts Commission took place just over twenty-five years ago on 25 September 1974 (Accounts Commission, 1976: 5). The Accounts Commission that exists today is a very different creature. This section aims to provide an insight into why the Commission was established in the first place and the way in which it has evolved since that time.

1.1 The Rationale for the Establishment of the Accounts Commission

Prior to the establishment of what was primarily known as the Commission for Local Authority Accounts in Scotland¹, private sector accountancy firms were directly appointed to audit the pre-1975 county, city, town and burgh councils by the Secretary of State for Scotland. There were a number of weaknesses in this regime and it was widely agreed that local government reorganisation in 1975 provided a great opportunity to review and update local government audit in Scotland. Meanwhile, in the late 1960s, the idea that local government audit should be the responsibility of an independent body had been bandied about between the District Audit Service in England and the Department of the Environment. However, by the time the Department of the Environment had scrutinised the proposals, there was no time (or perhaps willingness) to introduce this concept into the forthcoming legislation on local government reorganisation in England. In contrast, in Scotland there was more time before the reorganisation legislation and this coupled with a less reticent attitude towards this idea (Nicholson, 1986: 239) led to the establishment of the Accounts Commission under the *Local Government (Scotland) Act 1973*.

The two main rationales for the establishment of the Commission stem from two main problems with the previous audit regime. Firstly, there were a large number of relatively small accountancy firms conducting a handful of small audits in their own manner. Thus, there was no cohesion in the local government audit function and the level of income for each firm in the majority of cases, was not sufficient to justify the employment of the specialist staff needed to audit those accounts. Consequently, it was felt that a lot of the firms were not equipped to manage the step between the audit of a small burgh and the audit of the future districts or regions. To respond to this, the establishment of the Commission would, by rationalising, co-ordinating and overseeing the audit process, raise standards and improve the quality of the audit. Secondly, the establishment of an independent Commission with the responsibility of appointing auditors, dealing with reports and fixing audit fees for each authority was seen as an acceptable way of enhancing the independence of the local government audit process, distancing it from both central and local government. Additionally, as Magee (1999:9) suggests:

“...it was recognised that one tier of elected Government interfering with another could lead to political conflict. This risk could be significantly reduced by interposing an independent body between local and central government which would be seen to act objectively and without political bias.”

¹ This was the official name of the Accounts Commission until it was renamed ‘the Accounts Commission for Scotland’ by the *NHS and Community Care Act 1990* upon assuming the external audit of the National Health Service in Scotland.

However, it was contended at the time by Mr Hugh Brown MP, that the reason behind the establishment of the Commission was not to lessen the risk of political wrangling between the centre and the locality, but to give the Secretary of State an apparently apolitical scapegoat which could be used as a political tool.

"...I am in favour of bodies being answerable to the electorate as directly as possible. If we can avoid bringing in hatchet men in the middle, answerable to nobody, I prefer to do so...It will be easier for the Secretary of State to say that he is being asked to do something by the Commission – this independent body of political neutrals." Member of Parliament for Glasgow, Provan, Mr Hugh D Brown (Parliamentary Debates, Session 1972-73, Vol. 7, Column 1764)

Mr Brown's reference to the prospective Commission Members as 'hatchet men' is interesting, given that one definition of a hatchet man is a 'hired killer'. Perhaps local government have got something more than surcharge to look out for if they get on the wrong side of the Commission! (It is also described as a person employed to carry out a fierce verbal attack on a person especially in print). Despite these misgivings, the idea of an Accounts Commission appears to have been welcomed by most.

1.2 The Evolution of the Commission

During the twenty-five years the Commission has been in existence, it has acquired a number of new statutory responsibilities which have broadened its role considerably. This is despite a claim by Mr George Younger MP prior to the establishment of the Commission that:

"There is no question of the function of audit going further than what audit generally means all over the commercial world, that is, checking that expenditure is within, in this case, the Statutes which lay down the laws within which local government works...." (Parliamentary Debates, Session 1972-73, Vol. 7, Column 1733-4)

The first major expansion to the Commission's remit occurred when the *Local Government Act 1988* provided the Commission with a statutory value for money function. This was five years after the Audit Commission which was granted statutory VFM powers upon its inception in 1983. Interestingly, the Controller of Audit in 1983 did not want statutory VFM powers, being of the opinion that any definition of 'audit' would inhibit what is 'a dynamic and continuously evolutionary process' (Troman, 1984: 25). However, his successor saw the limitations of not having a statutory responsibility in this area by comparing the Accounts Commission with the Audit Commission:

"The Audit Commission has been strident, controversial, demonstrably independent and has achieved a high profile...The Accounts Commission by comparison has been restrained, non-controversial, has adopted a low profile and has spent very little. The impact accordingly has been limited...one has the feeling of being compared, unfavourably, with the performance of the Audit Commission. It is important, therefore to state unequivocally that without the tools one cannot do the job!" (Simpson, 1986: 20)

A subsequent extension to the statutory duties of the Accounts Commission, under the wing of value for money, occurred as a result of John Major's much publicised Citizen's Charter Initiative. The *Local Government Act 1992* placed upon the Commission the duty to audit indicators of performance for local government. Also, more contentiously, the Commission was required to enter the standard-setting arena by actually defining

these indicators whilst also publishing a national comparison of all local authorities' performance.

The most recent addition to the Commission's statutory responsibilities resulted from the *National Health Service and Community Care Act 1990*. Herein lies a story. Although the Act which was passed in 1990, provided for the Accounts Commission to secure the audit of all NHS bodies in Scotland, the legislation was not actually activated until 1995; a full five years later. (Incidentally, the Audit Commission was granted this responsibility in 1990 when the Act was passed.) Various reasons have been forwarded to explain this delay. For example, the pace of NHS reforms in Scotland was much slower than south of the border and it was felt that the Commission should assume the NHS audit when most Trusts had been formed OR the NHS Management Executive had reservations about whether the Accounts Commission was equipped to do the job properly OR the NHS Management Executive was very reluctant for the Accounts Commission, an independent body, to assume responsibility for the NHS external audit because it did not want an external body, one it could not control, poking its nose into what it saw as its affairs! Whatever the real reason, it resulted in a five year delay.

1.3 The Developing Organisational Form of the Accounts Commission

Thus, the statutory responsibilities of the Accounts Commission have mushroomed over the last twenty-five years resulting in the Commission becoming much more diversified. These changes have led to much modification in the internal organisation of the Commission. The way in which this has actually occurred is examined by splitting the organisation into three: the auditors, the officers and the members.

The Auditors

One of the major changes to local authority audit in Scotland which emerged from the establishment of the Commission in 1975, was the advent of dedicated local government auditors, directly employed by the Accounts Commission. As stated, previously all local government audits had been conducted by a vast array of private accountancy firms. Now a mixture of staff directly employed by the Commission and private accountancy firms were utilised to conduct the audits of local authorities. The rationale for utilising both directly employed and approved auditors was first forwarded during the debates of the First Scottish Standing Committee prior to the establishment of the Commission.

" We... felt that it would probably be good for accountancy firms to have some experience of what is going on in local government and so on, and also good for those concerned solely with local government auditing to have some leavening of non-local government audit coming in to check on their work and generally speaking to take part in it." (Mr George Younger MP, Parliamentary Debates, Session 1972-73, Vol. 7, Column 1732)

Kimmance (1984: 234) suggests that because private firm auditors and directly employed auditors are in competition, there is "an opportunity and a spur for them to learn from each other". He saw that approved auditors had to get to grips with the wider remit of public sector auditing whilst the directly employed auditors, were required to emulate the private sector's emphasis on giving a 'true and fair' view on financial statements giving a much clearer objective for essential task work.

As can be seen in *Figure 1*, *Figure 2* and *Figure 3*, three inter-related trends have been identified in the procurement of the audit during the lifetime of the Commission: a decrease in the number of firms appointed; and an increase in the directly employed auditors' proportion of the audits (resulting in an increase in the number of directly employed field staff).

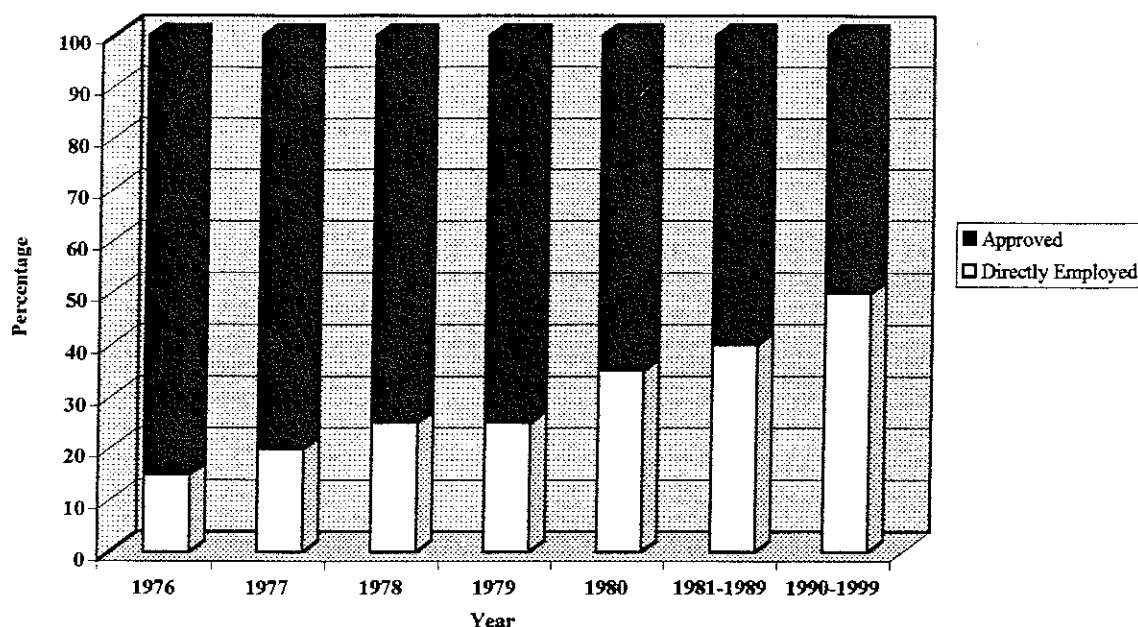


Figure 1: Percentage Split: Directly Employed versus Approved Auditors

In the early years, reliance was placed upon the private firms who had conducted local government audits in the past, whilst a limited number of directly employed auditors were appointed by the Commission (Page, 1975: 472-473). In 1975, only two Accounts Commission Chief Auditors were appointed based in Hamilton and Glenrothes respectively, each with a small team of around half a dozen. At this time, these directly employed auditors only carried out around 15% of the audits in terms of value (Accounts Commission, 1982: 27), whilst the remaining 85% were conducted by 45 private firms (Accounts Commission, 1976: 13-20). The directly employed side was gradually expanded firstly by creating additional audit teams within each office and then by expanding geographically. In 1980 a new Chief Auditor post was created in Inverness. At this point in time the directly employed auditors conducted 40% of the audits. In 1987, the number of private firms was greatly reduced 25 to 15, in order to ensure that a greater workload could be given to those firms who continued in appointment thus enabling them to invest in and bring in to bear the necessary expertise to satisfy the Commission's requirements for both audit and value for money (Accounts Commission Annual Report, 1987: 5).

As is depicted in *Figure 2*, around 1992, the number of private firms utilised by the Commission was cut again. At this point they were reduced to only eight in number; each with a large portfolio of audits. Also in 1992, a fourth office for directly employed auditors was created in Glasgow (an offshoot of the East Kilbride Office). Also, sub-offices were established in Aberdeen in 1991 and in Edinburgh in 1993. It was around this time that directly employed auditors were for the first time conducting 50% of the

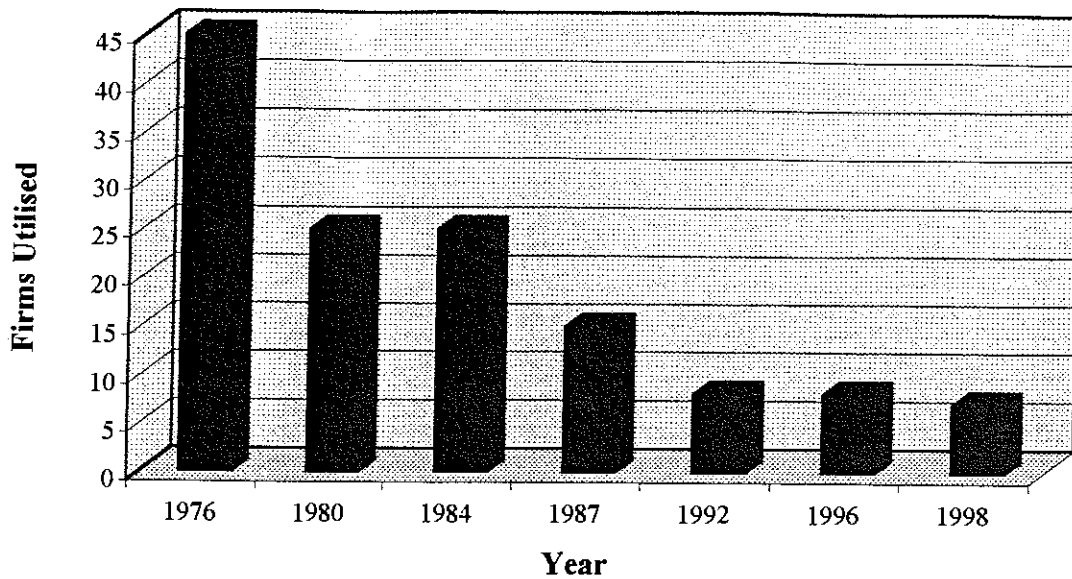


Figure 2: Decreasing Number of Firms Utilised

audits. This has remained constant since then. A fifth Chief Auditor post was created in 1996 to ensure effective management of the expanded workload following from the new NHS responsibilities. At this point around twenty staff from the Scottish Office Audit Unit, (the unit in the Scottish Office which previously carried out the NHS audits) were transferred to the Accounts Commission. Therefore, as depicted in *Figure 3*, in 1998, the field staff were numbered at around 100 and organised into five directly employed offices.

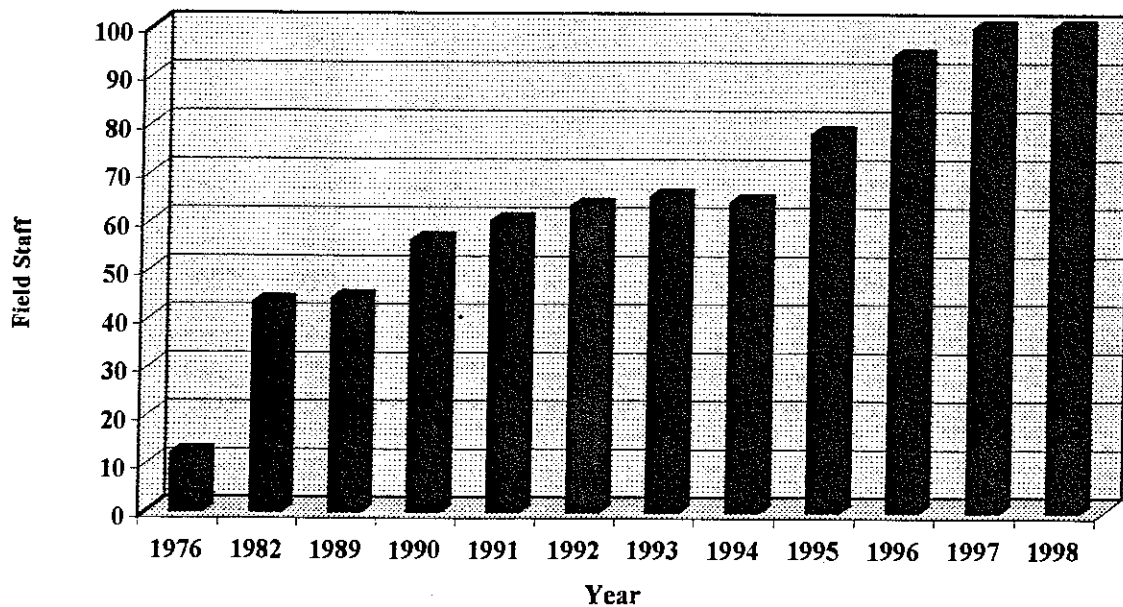


Figure 3: Average Number of Field Staff Employed per Year

The Officers

As would be expected, going hand in hand with the expanded role of the Commission, has been an increase in the number of HQ staff. There have been five Controllers of Audit during the lifetime of the Commission; the respective reigns and background of whom are set out in *Figure 4*. The first Controller of Audit in 1975, Mr Jim Dargie, only had five officers below him: a Depute Controller of Audit; a Secretary to the Commission; and three Assistant Controllers (Accounts Commission Annual Report, 1976: 7). This modest level of staffing only increased slightly during the reigns of Mr Dargie's two successors (both of whom were promoted through the ranks of the Commission), Mr James Troman and Mr Robert Simpson. It was Mr Simpson in 1985 who, in light of the limited VFM work being carried out at that time by auditors, became the first Controller to introduce an element of specialisation into the HQ structure. He did this by creating two wings: Audit Services (which at this time covered the procurement and the follow-up of audits); and Value for Money, each under the direction of a Depute Controller. As stated earlier, the Commission was granted statutory VFM responsibilities in 1988. In respect of this, when Mr John Broadfoot was appointed the fourth Controller of Audit, a short time after, he secured more resources to be dedicated to staffing. Thereafter, there was an incremental expansion in numbers of HQ staff until 1995, a few of whom were probably employed as a result of the acquisition of the responsibility for developing and monitoring performance indicators in 1992. This is depicted in *Figure 5*.

Time Frame	Name of Controller of Audit	Background
1975-1981	Mr J Dargie	Finance Officer
1982-1985	Mr James Troman	District Auditor
1985-1989	Mr Robert Simpson	Internal Auditor
1990-1994	Mr John Broadfoot	Finance, Chief Executive
1995-1999	Mr Robert Black	Planning, Chief Executive

Figure 4: The Respective Reigns of the Five Controllers of Audit

As can be seen from *Figure 5*, the most dramatic rise in HQ staffing levels occurred not surprisingly between 1995 and 1996, just after the appointment of Mr Robert Black as Controller of Audit, when the Commission assumed the external audit of the NHS in Scotland. At this time, a number of employees from the Scottish Office Audit Unit, which previously had the responsibility for auditing NHS bodies in Scotland, were transferred to the Commission. In order to meet the challenges of what was becoming an increasingly sophisticated role for the Commission, Mr Black revamped the staffing structure accordingly. Five directorates were established, each headed up by a member of what was now the senior management team of the Commission. A 'purchaser-

provider split' was introduced with regard to the provision of audit services by the directly employed teams and the procurement of the audits. Also, work on VFM studies was split between a local government directorate and a NHS directorate with a separate team dealing with management arrangements. As a result of all these changes, what has often been referred to as a 'critical mass' was created. This in turn demanded specially dedicated support staff, e.g. personnel staff, computer support, media and publications etc.; posts which were not warranted by the previous staffing levels. Thus, the extent to which the Commission's remit has become more multifaceted has been reflected in both the staffing level and the staffing structures dictated by the Commission HQ.

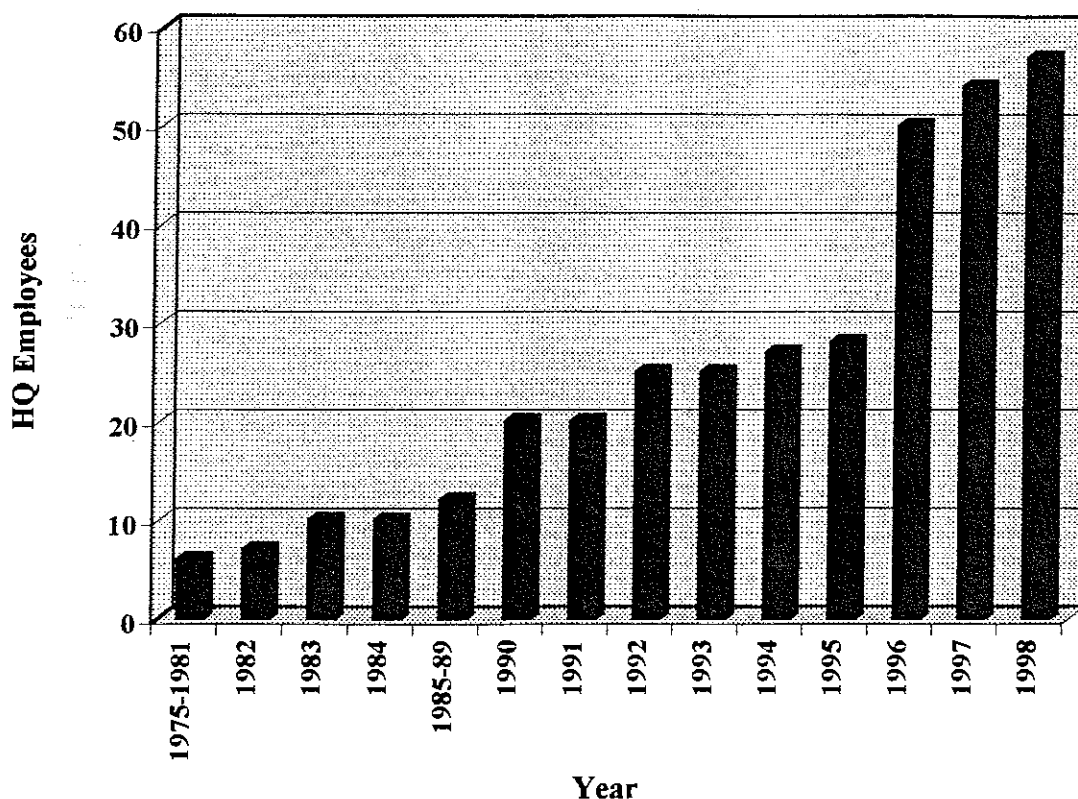


Figure 5: The Rise in Number of Headquarter Employees

The Members

On its inception, the Commission was to consist of between nine and twelve Members. This was to remain until 1995 when the *NHS and Community Care Act 1990* provided for the number of Members to be expanded to between eleven and fifteen in light of the assumption of the National Health Service audit. In 1973, Mr George Younger MP envisaged that the Members would be appointed "... probably not from people at present involved in local authority audit..." He went on to state that "*We should like the Commission to have a blend of accountancy skill and local government experience.*" (Parliamentary Debates, Session 1972-73, Vol. 7, Column 1733). The first Chairman of the Commission was the Rt. Hon Tom Fraser, who was a former MP and Government Minister with a long experience of public administration. Of the eleven other Members,

five were from an accountancy background, one was a Councillor and five had a legal background. There have been three subsequent Chairmen – Mr Harry Munro, who had a legal background, Professor John Small, an accountancy academic and Professor Ian Percy, formerly a Senior Partner with an accountancy firm and an academic. From initial observations, the most striking difference in the make-up of the Commission today is that the Commission Members come from much more varied backgrounds – they are no longer solely accountants and lawyers. Also, there is a higher representation of women. There are now four different categories of Commission Member: those from a local government background; those from a NHS background; professionals (i.e. mostly lawyers or accountants); and captains of industry. Indeed, the current Commissioners include the General Manager of Standard Life Assurance, a former Managing Director of the Royal Bank of Scotland and a Public Affairs Consultant. It is clear that this has had a bearing on the way in which the Commission has become more ‘corporate’ in its attitudes in the last few years.

2. A Flavour of Initial Research Findings

The purpose of this section is to provide a flavour of the preliminary findings of this research on the Accounts Commission for Scotland by selecting examples from the results of a questionnaire survey conducted in December 1998² and by drawing upon the information and opinion acquired through a number of elite interviews³. Three different areas will be discussed. Primarily, the audited bodies’ general perceptions of the Accounts Commission will be outlined, followed by an examination of issues highlighted by the questionnaire survey findings regarding the Commission’s value for money role. Lastly, the audited bodies’ perceptions of the regularity and probity audit function of the Commission will be commented upon and a number of observations concerning statutory reporting and surcharge made. Before this however, for information purposes, more details are provided regarding the questionnaire survey.

Two questionnaires were designed for the survey - one for local government bodies and one for NHS bodies. Both questionnaires were similar in content except for the inclusion in the local government questionnaire of questions taking into account the Commission’s long involvement in local government, thus allowing for a comparison to be made between past and present (which was December 1998). The majority of the questions required the respondents to indicate their extent of agreement or disagreement with various statements given, i.e. to indicate whether they strongly disagreed, slightly disagreed, were neutral, slightly agreed, strongly agreed or deemed the statement not applicable. From their responses, for ease of analysis, a ‘net percentage’ figure was calculated. This is a calculation adapted from the Butler Review of the Audit Commission (1995: 7). It is the difference between the percentage of respondents who agreed with the statement and the percentage of those who disagreed. A positive percentage indicates that the majority agreed, a negative percentage shows that the majority disagreed. It is the net percentage figure that will appear in all the following tables. A questionnaire was sent to the Director of Finance in each body audited by the Commission. The purpose of the survey was to identify the strengths and weaknesses of the Accounts Commission’s role from the perspective of the audited bodies. As such, it

² A detailed summary of the questionnaire survey findings is available upon request.

³ The designations of the interviewees can be found in Appendix 1.

was assumed that in each body the Director of Finance would have the most knowledge and experience of the Accounts Commission's role.

2.1 Audited Bodies' General Perceptions of the Accounts Commission

One section of the questionnaire contained various words to which the respondents were required to indicate their extent of agreement. An outline of these responses is provided together with a synopsis of responses concerning the overall adequacy of the skills, qualifications and experience of auditors (whether directly employed or approved) and of the staff in George Street. Also, the way in which audited bodies perceive their relationship with their auditors and Accounts Commission HQ is discussed. These responses are all deemed to be indicative of respondents' overall perception of the Commission

It is evident from the questionnaire responses that the Commission has been in the past, and is, respected by all. The Commission's two main strengths are seen in firstly, its independent status and secondly, in the quality of its staff at both central and local levels. Additionally, audited bodies perceive the Commission to be fair, and constructive in its criticism. However, it is evident, in what appears to be a typical pattern, that the Commission is held in higher regard by local government than by the NHS. For example, when asked the extent to which they valued the Commission, local government respondents were much more positive than their NHS counterparts. Most pointedly, NHS respondents vehemently disagree with the Commission itself being value for money. This appears to have caused much resentment (which in all fairness the evidence suggests is waning) from which many of the other negative responses may have stemmed from. It is surmised that a number of factors have contributed to this resentment. Firstly, prior to the Accounts Commission assuming responsibility for the NHS audit, the cost of the audit was paid centrally by the NHS Management Executive, not the individual NHS bodies. Secondly, when Trusts were established, a lot of the audits were put out to tender and won by private firms. When this occurred, they were subjected to what was basically a statutory year end audit. It did not cover VFM, proper arrangements and regularity in any depth and therefore was quite cheap. Also, there was no add-on to contribute to the cost of the Accounts Commission. Therefore, when the Accounts Commission assumed responsibility for the external audit of NHS bodies and extended the scope of the audit to cover areas such as regularity and value for money, causing the audit to be much more expensive, the audited bodies felt like they were getting the same audit for much more money (because in a lot of cases it was the same private firms that were conducting the audit). In comparison, the cost of audit to local government bodies has risen more on an incremental basis and as a result (and as the evidence suggests) it does not appear to be such a contentious issue.

With regard to skills, qualifications and experience, the vast majority of respondents agreed that their current local auditors typically had what was required in these respects to be effective in their role, regardless of whether they were directly employed or approved. However, as can be seen in *Figure 6*, in the past, whereas local government respondents were of the opinion that directly employed auditors were adequately equipped for the job, approved auditors were clearly seen as severely lacking. With regard to the officers of the Accounts Commission based in George Street, local government respondents agree to a moderate extent that they have the required skills and

qualifications to be effective; a perception that has improved over time. However, NHS respondents remain unconvinced. Of course it must be remembered that these are only perceptions. The limited level of contact between HQ staff and audited bodies, coupled with a modest approach to declaring the skills and experience of individual staff members could contribute to this.

<i>EXTENT TO WHICH AGREE</i> <i>have skills, qualifications</i> <i>to be effective:</i>	TYPE OF AUDITED BODY		
	LG (Past)	LG (Dec. 1998)	NHS (Dec. 1998)
Local Auditors:			
<i>Directly Employed</i>	+84%	+90%	+72%
<i>Approved</i>	-7%	+73%	+81%
Accounts Commission HQ	+32%	+61%	+37%

Figure 6: Skills, Qualifications and Experience

It is apparent that, in the main, a very good relationship exists between the audited bodies and the local auditors (this statement attracted the highest level of agreement in the entire survey) regardless of whether the auditors are directly employed or approved. There was also agreement that the relationship between the central Commission and the audited bodies was good, albeit not as fervent as the relationship enjoyed between the local auditors and the audited bodies. This could be explained by the lower level of contact experienced between audited bodies and the central Commission. Finally, it appears that local government's relationship with the Commission has remained constant throughout the years, despite the fact that the Commission's role has changed radically.

<i>EXTENT TO WHICH</i> <i>Agree Relationship</i> <i>is 'good' with:</i>	TYPE OF AUDITED BODY		
	LG (Past)	LG (Dec. 1998)	NHS (Dec. 1998)
Local Auditors:			
<i>Directly Employed</i>	+78%	+95%	+82%
<i>Approved</i>	+53%	+91%	+95%
Accounts Commission HQ	+74%	+74%	+60%

Figure 7: Relationships between Audited Bodies and the Accounts Commission

2.2 Value for Money Audit

It is evident from the questionnaire survey that respondents have a number of concerns regarding value for money at both local and central levels. However, it must be borne in mind that the respondents were all from a Finance background and so, by definition, would in all likelihood concentrate more on the cost of the VFM work than its benefits given that the finance department will not in many cases reap the benefits of any study. Notwithstanding this, it was thought valid to cover VFM work in the survey, given the dealings the Finance Director has with auditors and the service managers. Thus, these responses provide only a general indication which, it is accepted may contain an element of bias.

<i>EXTENT TO WHICH AGREE</i> <i>effective at helping</i> <i>achieve economy,</i> <i>efficiency & effectiveness</i>	TYPE OF AUDITED BODY		
	LG (Past)	LG (Dec. 1998)	NHS (Dec. 1998)
Local Auditors:			
<i>Directly Employed</i>	+32%	+55%	+37%
<i>Approved</i>	-27%	+9%	0%
Accounts Commission	+10%	+48%	-25%
HQ			

**More private firms conduct NHS audits than directly employed auditors, and conversely, more directly employed auditors audit local government bodies than private firms. Out of the 63 respondents, 20/31 local government bodies were audited by directly employed auditors and 21/32 NHS bodies were audited by approved auditors.

Figure 8: Efficacy in Value for Money Role

Three observations can be made from examining *Figure 8*, which sets out the respondents' perceptions of their auditors and the Commission in the VFM role. Firstly, NHS respondents are not convinced that their auditors, and actually disagree that Accounts Commission HQ staff, help their organisations achieve VFM. Furthermore, many respondents were of the opinion that local auditors had inadequate skills and experience (or in the case of the NHS, the relevant clinical background) to carry out the VFM work. Secondly, the confidence of local government respondents in the ability of the directly employed auditors and to a greater extent, the Accounts Commission HQ staff has improved over time. Thirdly, all respondents have less confidence in the VFM work of approved auditors in comparison with directly employed auditors. This may be explained in part by the fact that private firms audit a higher proportion of NHS bodies than local government bodies and because NHS respondents lack faith in VFM as a whole, then this could rebound back on approved auditors in a disproportionate way. Also, referring back to the feelings of Directors of Finance in the Health Service regarding the cost of audit, many see the Commission's VFM role as contributing to this unnecessary cost.

Figure 9 provides a synopsis of respondents' views on two issues regarding VFM studies: the relevancy of the topics selected and the benefit reaped from them. In line with the pattern which has already been identified, the NHS responses exhibited negativity in these areas whilst local government respondents noted a great improvement from the past. The NHS responses in this area were surprising given the extensive consultation that takes place. Again, this may be an area of the Commission's VFM work which needs to be marketed to a greater extent.

TYPE OF AUDITED BODY			
	LG (Past)	LG (Dec. 1998)	NHS (Dec. 1998)
<i>Extent to which agree relevancy of VFM Study Topics</i>	+12%	+42%	+16%
<i>Benefit reaped from VFM Studies</i>	-24%	+32%	-6%

Figure 9: Respondents' Views of VFM Studies

Given the negativity of NHS respondents, particularly in the area of VFM, it is appropriate to mention the role that the NHS Management Executive may have played in this. Evidence suggests that, more so in the early days, the NHS Management Executive was less than supportive of the Commission's role, especially in the VFM sphere. Therefore, it is possible that this attitude may have been transferred to a number of the NHS bodies. Interestingly, one of the interviewees in the Health Service regarded the NHS Management Executive as an 'ally' whilst the Accounts Commission was the 'enemy'!

EXTENT TO WHICH AGREE:	LOCAL GOVERNMENT (DEC.1998)
The PIs developed are valid and reliable	0%
the performance info. published provides the public with an accurate reflection of performance	-37%
management arrangement modules are effective at improving performance	+45%
Local work carried out by auditors on management arrangements is	+45%

Figure 10: Respondents' Views of PIs and Management Arrangements

Finally, *Figure 10* sets out respondents' views of performance indicators and the management arrangements work of the Commission. With respect to management arrangements modules, there is moderate agreement to their effectiveness in improving performance in local government. It is suspected that, in light of Best Value, managers will find management arrangements modules increasingly useful. Also, there is moderate agreement to the efficacy of the local auditors in this area. However, Directors of Finance clearly have yet to be convinced of the value of performance indicators. A number of the interviewees were in accord with this opinion. Inter-authority comparisons appear to be especially disliked. The Observer articles, which utilised/manipulated the PIs to rank Scottish councils over all and found SNP councils to feature high in the rankings (an interpretation which the SNP was happy to shout about) did not help. This said, it is apparent, that unlike many of the other areas of the audit, Councillors do take notice of performance indicators and their authority's league position and ask for explanations accordingly. In this way, PIs are effective in holding officers to account to their Members.

2.3 Regularity and Probity Audit

Regularity and probity audit is the core business of the Accounts Commission. The regularity and probity function is conducted at three different levels within the Commission: auditor level, Controller of Audit level and Commission level. All three are touched upon in this section. Firstly, the opinions of all respondents with regard to regularity and probity audit are discussed. Secondly, a comparison is made between the provisions of the governing legislation regarding statutory reporting for NHS bodies and local government bodies. Thirdly, by utilising primary documentation, the pattern of statutory reporting over the lifetime of the Commission is remarked upon. The section concludes, by commenting on the use of surcharge and the recommendation of surcharge throughout the Commission's lifetime.

Respondents' Perceptions

Overall, respondents agreed that local auditors were effective in helping their respective bodies achieve high standards of regularity and probity. This is illustrated in *Figure 11*. Again, local government respondents appeared to have much less faith in approved auditors in comparison with directly employed auditors both at present and in the past, although there has been a slight improvement. Interestingly, NHS respondents were slightly more confident about their approved auditors' abilities in assisting them in achieving high standards of regularity and probity. It has been suggested that NHS bodies are more in tune with approved auditors than directly employed auditors, whilst local government bodies are more in tune with directly employed auditors than approved auditors. The figures in *Figure 11* indicate this, albeit marginally. In the eyes of local government the Accounts Commission HQ is perceived to have improved greatly in assisting in achieving high standards of regularity and probity. This could be attributed to the Commission's raised profile over the years. When comparing the present (i.e. December 1998), it is interesting that local government respondents were considerably more agreeable than their NHS counterparts that the Accounts Commission HQ was effective in helping their organisation achieve high standards of regularity and probity.

This could be because the role of Accounts Commission HQ is very limited with regard to regularity and probity in the NHS. This is explained in the subsequent section.

<i>EXTENT TO WHICH AGREE</i> <i>effective at helping achieve high standards of Regularity and Probity</i>	TYPE OF AUDITED BODY		
	LG (Past)	LG (Dec. 1998)	NHS (Dec. 1998)
Local Auditors: <i>Directly Employed</i>	+62%	+80%	+73%
<i>Approved</i>	+20%	+36%	+86%
Accounts Commission HQ	+25%	+65%	+28%

Figure 11: Extent of Agreement – Effective in Assisting in Achieving High Standards of Regularity and Probity

Statutory Reporting: NHS versus Local Government Provisions

The statutory reporting arrangements in relation to NHS bodies differ quite considerably from their local government equivalents. In simplistic terms, NHS bodies are simply not held as publicly accountable as local government bodies. This can be seen in *Figure 12*. The quasi-judicial role of the Commission does not apply to NHS bodies. The Commission cannot hold hearings and cannot make recommendations to Scottish Ministers. The Controller of Audit cannot report publicly in the same way as he can for local government bodies and indeed, it is the auditor and not the Controller of Audit who is required to make a report in the event of illegality. Although the Controller of Audit is given the opportunity to comment on the auditor's report, he is afforded little time to do so, being required to send the report 'forthwith' to Scottish Ministers. This could be perceived as an internalisation of accountability at the expense of external public accountability.

The rationale for these different arrangements stems from the differing accountability relationships enjoyed, whereby NHS bodies are accountable directly to central government whilst local government bodies have a separate democratic accountability to the locality. In local government, Members are elected. There is no dismissal procedure for Councillors because it is believed if this were to be the case, it would deprive the electorate of making this decision at the next election. The quasi-judicial function of the Commission exists as a sanction because of this. In contrast, Members of Health Boards and Trusts Boards are appointed by the First Minister. Thus, it follows that if they act inappropriately they will be dismissed; this is the sanction. Therefore, it was not thought appropriate to extend the quasi-judicial function of the Commission to NHS bodies. This is a very sensible argument. However, this does not explain why the same level of 'publicness' is not attached to reports made by the Controller of Audit concerning NHS bodies in comparison with those concerning local government bodies. NHS bodies and

local government bodies are local bodies which spend a large amount of public money. There is no logical argument for one to be held more publicly accountable than another.

	Local Government	NHS
Auditor's Powers		
Statutory reporting power in the event of illegality vested in the <i>AUDITOR</i>	X	✓
Controller of Audit's Powers		
Statutory reporting power in the event of illegality vested in the <i>CONTROLLER OF AUDIT</i>	✓	X
The Controller of Audit can make a report on any matter arising out of the accounts.	✓	✓
He may send this report to anyone he thinks fit	✓	X
This report must be made available for public inspection	✓	X
The Controller of Audit <u>must</u> make a statutory report if requested to do so by the Commission.	✓	X
He may send this report to anyone he thinks fit	✓	✓
This report must be made available for public inspection	✓	X
The Commission's Powers		
The Commission can request a statutory report	✓	✓
The Commission may hold a hearing	✓	X
The Commission may make recommendations to the First Minister or to the audited body after considering any statutory report	✓	X

Figure 12: The Differing Responsibilities in Statutory Reporting: NHS versus Local Government

Despite the limitations placed on the Commission's role regarding NHS bodies, in reality this appears to have had a minimal effect. The main reason for this has been the advent of an 'overview' report of the performance of NHS bodies (incidentally an

overview report of the performance of local government bodies is also compiled). The Controller of Audit makes this report every year under the provision which allows the Commission to request a statutory report, and as such he can send this report to any person he thinks fit. This report provides an annual overview of the financial stewardship and performance arising out of the audit in the health service (and local government respectively). The overview reports are indicative of a new strategy adopted by the Commission regarding statutory reporting. This is expanded upon in the next section which observes a number of trends in statutory reporting over time.

Trends in Statutory Reporting

A preliminary analysis of the pattern of statutory reporting during the lifetime of the Commission has been conducted. It was found that in terms of incidence, as *Figure 13* suggests, there has been great variance over the years. Between 1979 and 1995 it can be seen that the level of statutory reporting was in a gradual decline. Also, by delving deeper, it appears that over time different approaches have been adopted towards statutory reporting in terms of the types of reports most commonly made and the circumstances in which they are made. The number of statutory reports made peaked in 1979. These were all public interest reports; the vast majority of which concerned delays in the production of Abstracts of Accounts – not the most newsworthy of topics. During the early 1980s, although there were many statutory reports made in the public interest, the majority of reports would have been of little interest to the public and would have had little impact on other local government bodies. It has been suggested by a former Commission Member that during this period the Commission was still finding its feet, causing it to be over-cautious in its approach which in turn led to a number of perhaps more important issues not being addressed.

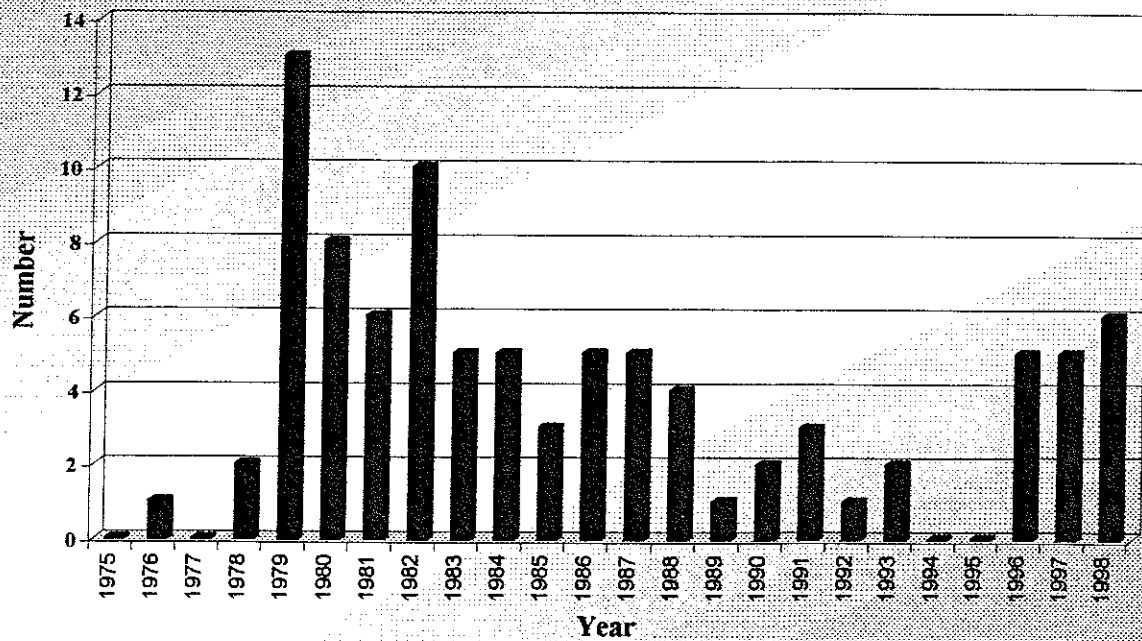


Figure 13: Number of Statutory Reports Per Year

In the mid to late 1980s, the level of statutory reporting decreased. During this time, there seems to have been a trend towards making public interest reports only in respect of more 'important' issues, whilst special reports became more common. During the early 1990s much strain was put on central-local relations, not least because of the introduction and subsequent abolition of the community charge in Scotland. At the same time, the Commission had begun to take on the big issues. Many of these at this time were highly political. It was a very testing time for the Commission. There were a number of disputes regarding statutory reports which ended up in the Court of Session, a number of which did not go the Commission's way. To an outsider, these high profile cases which were 'lost' could be viewed as undermining of the authority of the Commission. It seems as if the Commission lost confidence at this time as in 1994 and 1995, no statutory reports were made for the first time since 1977.

However, who can say how many statutory reports there should be? It is suggested that a balance be struck between only making statutory reports in the most extreme of circumstances (which would not be utilising these mechanisms of accountability to their full potential) and making them in respect of any relatively trivial matter (which would turn them into weekly occurrences thus diluting their effect). A more strategic approach appears to have been applied to statutory reporting in the period since 1996, which has seen a gradual increase in the incidence of statutory reports. Public interest reports stemming from both the Controller of Audit and the Commission have increased in number. These appear to be utilised in many cases to illuminate a certain issue, with the objective of drawing it to the attention of all local government and NHS bodies, as well as holding individual bodies to account in a public manner. Additionally, the publicity which now accompanies the statutory process serves to strengthen these objectives.

Surcharge

Surcharge is often referred to as the 'nuclear deterrent' because as Magee (1999: 10) suggests, 'it's important to maintain the threat of the ultimate sanction in order to encourage proper behaviour but we only look to use it as the very last resort'. Interestingly, local government respondents, potentially on the receiving end of this sanction, were in moderate agreement that it was an effective deterrent to both members and officers in unitary authorities. Indeed, evidence from a variety of interviewees suggests that Councillors have, in the past, opted not to go down a certain path because of the threat of surcharge. Thus, its existence does appear to work. Interestingly, a former Commission Member was of the opinion that when the legislation was drafted for the 1973 Act, it was intended only for Members of councils and not Officers. This is in accord with one of the rationales for the establishment of the Commission – to act as a sanction for Councillors who cannot be dismissed. However, this seems to have been lost upon the way because only one of the two actual surcharge orders, and two of the seven recommendations for surcharge concerned Members. *Figure 14* outlines these cases.

The principal argument regarding the unfairness of surcharge relates to the fact that it is only applied in local government. Also, the actual purpose of surcharge, to make good the loss to the public purse, appears to be questionable. The Western Isles case, concerning the loss of £24 million, clearly makes a mockery of that principle. If making good the loss to the public purse is no longer relevant, it is difficult to envisage what the

purpose of surcharging an individual can be. A number of former Commission Members stated that they were uncomfortable with the position in which they were placed when recommending a figure to be surcharged to the Secretary of State. This was due to the fact that they are not allowed to take into account any mitigating factors, a privilege which is only given to the Secretary of State. It follows then that the Secretary of State will, in all likelihood, lower the surcharge recommendation, as it can be assumed that in most cases, there will be mitigating factors. A cynic might say the rationale for this is to make the politician look sympathetic. Indeed, one interviewee felt strongly that the Commission's involvement in the surcharging process was only devised to create a scapegoat for the politicians to hide behind.

Occasions when surcharge has been recommended by the Commission			
YEAR	DETAILS	UPHELD	OFFICERS OR MEMBERS?
1994	WESTERN ISLES COUNCIL – ON-LENDING, BCCI	NO	OFFICERS
1993	DUMBARTON DC – SALE OF COMMON GOOD LAND TO A POLITICAL PARTY	NO	OFFICERS
1990	RENFREW DC – OVERPAYMENT FOR COUNCIL HOUSE IMPROVEMENT CONTRACT	NO	OFFICERS
1989	PERTH AND KINROSS DC – FAILURE TO SUBMIT CLAIMS FOR THE REIMBURSEMENT OF VAT	YES	OFFICER
1988	STIRLING DC – BUDGET ILLEGALITY	YES	MEMBERS
1985	STRATHCLYDE RC – PAYMENTS TO MINERS	NO	OFFICER
1981	WEST LOTHIAN DC – EX-GRATIA PAYMENTS MADE TO TENANTS FOR HOME LOSS	NO	MEMBERS

Figure 14: Cases where the Commission has Recommended Surcharge to the Secretary of State

Conclusion

This presentation has sought to provide the audience with both an objective view of the origins and evolution of the Accounts Commission for Scotland and a flavour of the research findings to date; findings which address, amongst other things, audited bodies' general perceptions of the Accounts Commission, various issues surrounding VFM work and a number of views on the traditional role of the Commission.

It has been found that the Accounts Commission was originally established in 1974 to rationalise and co-ordinate the local government audit function in Scotland, whilst providing a buffer between central and local government. The subsequent twenty-five years have seen the Commission's role diversify and expand in an incremental manner through the acquisition of VFM responsibilities, the duty to define, monitor, and publish performance indicators for Scottish local government and the assumption of responsibility for the external audit of all NHS bodies in Scotland. This diversification and expansion of responsibilities has in turn impacted upon the internal organisation of the Commission at all levels. Directly employed auditors, not in existence prior to 1975, now number around 100 and conduct 50% of the audits. The remaining 50% of the audits are currently conducted by only a handful of approved auditors (as opposed to 45 different firms in 1975). The number of HQ staff has risen from just half a dozen in 1975 to just under sixty at present. This expansion has been coupled with the introduction of specialisation into the staffing structure. Finally, the Members of the Commission are no longer just lawyers and accountants. They are drawn from a diverse range of backgrounds and as a result of this have played an important part in assisting the Accounts Commission to become more corporate in its approach.

From the research findings it is clear that the Accounts Commission is highly respected. Its independent status and the high quality of its staff at both local and central levels appear to be large contributors to this opinion. However, it can be seen from the questionnaire responses that NHS respondents in comparison with local government respondents exhibit relative negativity towards the work of the Commission. It is surmised that these feelings may stem, in part, from resentment over the cost of the audit, the fact that they have had relatively less time to become accustomed to the Commission and limited support given to the Commission's work by the NHS Management Executive. Also, in general, local government respondents appear to have more respect for the abilities of directly employed auditors than approved auditors, although more so in the past than the present.

A number of observations were also made regarding statutory reporting and surcharge. The Commission is statutorily obliged to take a back seat when dealing with NHS bodies and statutory reports. A number of reasons are forwarded to explain this; some of which are interpreted as valid and some are not. The main concern regarding the differing statutory provisions is that the same level of 'publicness' is not attached to reports made by the Controller of Audit concerning NHS bodies in comparison with those concerning local government bodies. Additionally, a preliminary analysis of trends in statutory reporting found that there has been a great degree of variance in both the levels of, and approaches taken to, statutory reporting over the years. Finally, in a discussion of surcharge, although it has been suggested that surcharge was only intended to be applied to Members in light of the fact that they could not be dismissed, in practice, very

interestingly, only two of the seven surcharge recommendations have concerned Members.

Over the last twenty-five years the Accounts Commission has encountered many challenges of which the most notable were: two local government reorganisations; political wrangling between the centre and the locality; the introduction and abolition of the community charge; and the recent restructuring of the Health Service in Scotland. Given the way the Commission has taken these in its stride, I have every confidence that the challenges ahead will be faced with equal resolve.

APPENDIX 1 – Designations of Interviewees

Officers from Audited Bodies

One Assistant Director of Finance – Unitary authority
One Director of Finance – Unitary authority

One Director of Finance, NHS Trust
One Director of Finance, Health Board

Auditors

Three Accounts Commission Chief Auditors
Four Partners/Directors from Private Firms

Officers of the Accounts Commission

Director of Audit Services
Director of Audit Strategy
Director of VFM Studies (Local Government)
Director of Health & Social Work Studies
Head of Management Studies
Secretary to the Commission
Controller of Audit
Media and Publications Manager

Former Officers of the Accounts Commission

Two former Controllers of Audit

Members of the Accounts Commission

Chairman of the Accounts Commission
Deputy Chairman of the Accounts Commission
Three Members of the Accounts Commission

Former Members of the Accounts Commission

Former Chairman of the Accounts Commission
Two Former Members of the Accounts Commission

Others

Representative of the NHS Management Executive
Representative of the Scottish Executive Development Department
Representative of CoSLA

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Academic paper

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Observations from an academic perspective

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