



BLEKINGE TEKNISKA HÖGSKOLA

The impact of the Audit Commission on the management control systems of local authorities – the case of London Borough of Lambeth

Master's Thesis in Business Administration

Authors: Spencer Aggrey-Bosu and Douglas Acquah-Hagan
School of Management, Blekinge Institute of Technology

Tutor: Dr. Klaus Solberg Söilen

Course: FE2413-2011 Master Thesis in Business Administration

Date of Submission: 15th August, 2011.

Abstract

This case study uses qualitative and quantitative analyses to examine the impact of the annual audits undertaken by the Audit Commission (hereafter the AC) at London Borough of Lambeth (LBL) on its management control system (MCS). The analysis reviews the audits undertaken between the years 2000 and 2010 and analyses the management reaction to these results to identify the impact on MCS.

The objective of the research was achieved by developing research questions which served as a research framework. The study focused primarily on three research questions: (1) have the audit scores of the AC influenced MCSs at LBL?; (2) how has the audit scores of the annual audits completed by the AC influenced the MCS of LBL?; and (3) why has the audit scores of the annual audits completed by the AC influenced MCS at LBL?. The theoretical framework used in this study focused on three bodies of literature: the work of the Audit Commission, auditing and audits scores, and MCSs. The thesis used content analysis to analyse LBL's submissions; audit results and recommendations; and improvement plans. Data for the analysis were collected via documentation, archival records, interviews, and direct and participant observation.

As a local government authority, LBL receives most of its annual finance from central government to deliver services to local residents and businesses. As a result the central government, through the AC, audits them every year to ensure that they are effective and efficient with their resources. Between the years 2000 and 2004, LBL audit scores were one star out of possible four stars and this represented considerable risk to its continuous survival. It is worth noting that a council with more than three consecutive score of one star is classified as a failing organisation and that council is taken into 'special measures' – a situation where the central government takes administrative control of the council. The trend of audit scores at LBL had indicated the council needed to improve in the areas of:

- Financial planning and monitoring;
- Service performance improvement in areas such as cultural services;
- Performance management processes; and
- Use of resources and internal capabilities.

After the audit recommendation of 2004, the council developed an improvement plan. This led to the implementation of the new financial control systems, performance management procedure and personnel control system. LBL's performance measurement imitates the balanced scorecard approach developed by Kaplan and Norton (1992). The reactions at LBL are congruent with the findings of Asel (2009) which demonstrated that organisations with high perceived uncertainty are more likely to change their MCS.

The research objectives limited the study scope which has opened opportunities for future research in local authorities such as: MCS as a package; the influence of other stakeholder; trade union contribution to MCS; and organisational leadership at local authorities. It is also worth noting that the Department of Communities and Local Government (DCLG) is in a consultation process with an intention to outsource the work of the AC with effect from 2012/13 audits (www.audit-commission.gov.uk).

Keywords: London Borough of Lambeth, local authority, audit commission, audit scores, management control systems.

Acknowledgements

We will like to first thank God almighty for granting us the wisdom, knowledge and understanding throughout our study at School of Management, Blekinge Institute of Technology (BTH).

The authors will like to express our sincere gratitude Dr Klaus Solberg Söilen – our tutor – for his advice, encouragement and guidance throughout the research. Another appreciation goes to Dr Urban Ljungquist, our fellow course colleagues, and all the lecturers at BTH for their guidance and support throughout the course. We will also like to thank the respondents at LBL especially the CEO, CFO and HR director for granting us audience.

Lastly, the authors will like to thank our respective families for their support and understanding during this study period.

Table of Contents

1.0	INTRODUCTION	1
1.1	Background	1
1.2	Problem Discussion	2
1.3	Problem Formulation and Purpose	3
1.4	De-Limitations	5
1.5	Thesis Structure	5
2.0	THEORY	6
2.1	Contingency Theory	6
2.1.1	Theoretical Model	6
2.2	Audit Commission and auditing process	7
2.3	Management Control Systems (MCS)	8
2.3.1	Forms of Controls	9
2.3.2	Performance Measurement	10
2.2.3	The Balanced Scorecard (BSC)	10
3.0	METHOD	12
3.1	Research Approach	12
3.2	Research Method Implemented	12
3.2.1	Selection of Research organisation	12
3.3	Data Collection	13
3.3.1	Interviews	13
3.3.2	Documents and Archival Records	14
3.3.3	Direct and Participant Observation	14
3.4	Research Analysis	15
3.4.1	Qualitative Analysis of the Audit Results and Recommendations	15
3.4.2	Qualitative Analysis of the Improvement Plan	15
4.0	EMPIRICAL DATA	16
4.1	The Case Organisation	16
4.1.1	Background to London Borough of Lambeth	16
4.1.2	Organisational Structure	16
4.1.3	Local Political Context	16
4.2	The Audit Commission	16
4.2.1	Performance Assessments	17
4.3	Audit Assessments at LBL	18
4.3.1	Document Submission to the Audit Commission	18
4.3.2	Summary of Audits Scores	18
4.3.3	Audit Commission's Recommendations	18
4.4	Management Controls at LBL	20
4.4.1	Financial Controls	20
4.4.2	Capital and Revenue Budgeting	21
4.4.3	Financial Accountability	21
4.4.4	Corporate Plan	21
4.4.5	Action Controls	22

4.4.6	Customer Satisfaction Controls	23
4.4.7	Personnel Controls	23
4.4.8	Employee Performance Monitoring	24
4.4.9	Reward and Incentives	24
4.4.10	Performance Measurement.....	24
5.0	DISCUSSION.....	26
5.1	Pre-Audits	26
5.1.1	Introduction of Annual Audits.....	26
5.1.2	Impacts of the Audit Assessments	27
5.2	Audits: - Reason for the changes in MCS	28
5.2.1	Poor Audit Scores Impact.....	28
5.2.2	Changes in PEU	29
5.2.3	Organisational Risk Capability.....	29
5.3	Reactions: - Changes in Management Controls.....	30
5.3.1	Developing and Implementing Improvement Plans.....	30
5.3.2	Financial Performance Review	30
5.3.3	Results Controls	30
5.3.4	Action Controls	31
5.3.5	Personnel Controls	31
5.3.6	Reward and Incentives	32
5.3.7	Cultural Controls	32
5.3.8	Adoption of BSC	32
6.0	CONCLUSION AND IMPLICATIONS	34
6.1	Conclusion	34
6.2	Implications of Study	35
6.3	Suggestions for Further Research	36
	REFERENCES	37
	APPENDICES	41
	Appendix A: Interview Questions Guide.....	41
	Appendix B: Summary of transcripts from the Interviews	46
	Appendix C: Organisational Structure at LBL.....	59
	Appendix D: Changes to the Political Administration at LBL.....	60
	Appendix E: Comprehensive Performance Assessment (CPA) Framework.....	61
	Appendix F: Corporate Assessment Scores	62

List of Figures

Figure 2.1 – Theoretical model (adopted from Asel, 2009).....	7
Figure 2.2 – The Balanced Scorecard	11
Figure 3.1 – Rules for determining audit scores	17
Figure 3.2 – LBL’s statutory and voluntary submission to the AC	18
Figure 4.1 – Corporate Plan Flowchart (the ‘golden thread’).....	22
Figure 4.2 – LBL’s balanced scorecard	25
Figure 5.1 – Theoretical model	26
Figure 5.2 – Lambeth Improvement Plan 2005-2008	28

1.0 INTRODUCTION

The aim of this research paper is to study the impacts of the annual audits undertaken by the Audit Commission (AC) for England and Wales on the performance management specifically and management controls systems (MCS) as whole for a local authority. The paper is a single case study on the impacts of the Commission's auditing activities on London Borough of Lambeth (LBL) between the years 2000 and 2010.

In this research, we will examine the changes implemented – including the performance management framework, performance appraisal process, financial management and the council's balanced scorecard approach – as a result of the audit recommendations. The research will also examine changes to the organisational culture and the council's approach to managing performance.

1.1 Background

The performance of the public sector organisations (PSOs) have been under continuous scrutiny over the years. Governments have over the years implemented policies and measures to monitor and appraise these organisations to ensure that there is accountability and delivery of services. Measures adopted by governments to monitor and evaluate public sector organisations include the setting up of inspectorate, board of governors, special committees and regulators.

The UK government through the Local Government Finance Act 1982 established the AC for Local Authorities in England and Wales in January 1983. The commission was set up as an independent watchdog to drive value for money, efficiency and effectiveness in local public services; the Commission was to help deliver better outcomes for both the tax payer and local people (www.audit-commission.gov.uk). The AC makes this clear by stating: "the Audit Commission works with local authorities and their partners to improve services for local people; we are doing this through our audit, inspection and research activities (www.audit-commission.gov.uk).

According to Kelly (2003), the four main functions of the AC are:

1. To set an auditory framework for local authorities;
2. Undertake and promote studies designed to improve the economy, efficiency and effectiveness in the management or operations of the audited on the impacts of statutory provision and how local authorities deliver services, including education and social services;
3. Direct relevant bodies to publish information that will aid comparison between relevant bodies, and between different financial years; and
4. Carry out inspections of local authorities' best value compliance.

Whether the AC has had impact on the performance of these organisations have being subject to much research and studies. In the article, 'The impact of audit on social work practice', Eileen Munro identified areas where the audits has improved performance by removing discrepancies within service delivery based on individual professionals preferences and prejudices (Munro, 2004). Kelly (2006) discussed the use of the AC as a vehicle for meta-governance by the UK government in moving from direct to indirect supervision of its local authorities. Kelly (2006) further explained that, the government achieves this by the AC exercising its hegemony, through periodic audits and inspections; in addition, it facilitates and participates in vertical and horizontal networks and partnerships with practitioners from local government institutions and who form part of local governance arrangements.

In an effort to understand AC's impact on a local authority's choice of MCS, we will employ contingency theory as an option for explaining the management actions. Additionally, LBL provides an ideal case to examine the impact of a non-traditional stakeholder on MCS. In summary, this research will add to existing research in the following ways:

- Looking at a range of documents and management actions made by LBL to provide evidence of impact of the AC beyond the usual anecdotal ones usually provided;
- Employing contingency theory as an explanation for the Council's reaction to the annual audits;
- Identifying how the interest of a non-traditional stakeholder (government through the audit commission) has influenced the organisation's MCS.

We chose to study the impacts of the AC on LBL because we are of the opinion that local authorities offer unique opportunity to understand the influence of the central government as a stakeholder beyond any of the other public sector organisation.

1.2 Problem Discussion

Public sector organisations are organisation funded and controlled by local or central governments provide services for the people in a country or the local community. Governments in most developed countries are currently running deficit-reduction agenda but still have to meet the expectations of its electorates in terms of increase in standards in public services, especially as the tax burden rises (Leslie & Canwell, 2010). This has led to more pressure on public sectors to deliver value-for-money services, eliminate inefficiencies and improve performance in order to operate within their reduced budgets. This deficit-reduction agenda has further put more emphasis on the organisation's leaders to adopt a contingency approach and restructure the organisation to make them more responsive and delivery-focused.

Schools, hospitals, local authorities, police forces and other public service agencies – including third party providers - are expected to demonstrate that they are achieving explicit performance standards and targets (Walshe et al., 2009). The performances of such organisations are often publicly reported through national league tables, performance indicators, and reports from inspectorates and regulators (Walshe et al., 2009). These announcements draw the attention of both the general public and governments to failing organisations. The government of UK through its agencies (particularly the inspectorates and regulators like OFSTED, the AC, the Care Quality Commission and others) has become increasingly involved in intervening in organisations that are deemed to be poorly performing (Walshe et al., 2009). According to Walshe et al., (2009), interventions implemented by government include:

- “Public ‘naming and shaming’ of organisations as failing – and the consequent publicity and public attention – with calls for senior staff resignations, media reporting, and so on;
- Inspection and re-inspection – while problems are often first highlighted by inspectorates, they are also often involved in further, repeated or more intensive reviews of performance over time, until an organisation is deemed to be performing adequately;
- Requiring a plan for improvement – often as part of the inspection process, the organisation is required to document and detail its plans to address the identified problems with its performance;
- Capacity support – using either inspectorate staff or others (like consultancies, senior staff from other more successful organisations, etc) to provide support and capacity development for the organisation;
- Additional resources – providing access to resources (financial or other) to support the organisation in tackling its performance problems;
- Top management replacement – removing some or all of the senior staff (the chief executive, head-teacher, or equivalent senior manager) and replacing them either

temporarily with an experienced “turnaround specialist” or permanently with a new appointment;

- Pressure on elected politicians or appointed board members to resign, or at least to apologise and make amends;
- Threat of sanctions – indicating that if the organisation does not resolve its problems, actions will be taken such as the withdrawal of some resources or support;
- Merger, takeover or closure – managing or forcing organisational and structural change, such as the merger of the organisation with another more successful one, or ultimately the closure of the organisation and the transfer of its business to others”.

With regards to local authorities in England and Wales, the AC undertakes performance assessment during which local authorities are requested to provide evidence of performance and demonstrate improvement capacity. Following this assessment, local authorities are ranked in a league table. This is done by giving scores of between one – the lowest – and four – the highest score – on key services. The councils are then rated in one of five ways: 'excellent', 'good', 'fair', 'weak' or 'poor'. 'Excellent' and 'good' councils will be allowed more autonomy from central government; 'weak' and 'poor' performing councils will be monitored more closely by central government; in the worst cases, they may receive ministerial intervention (www.idea.gov.uk).

With regards to the impacts of these interventions, Walshe et al., (2009) in their research article “Could do better? – knowledge, learning and performance improvement in public services” questioned:

- When and whether some of these interventions work?
- What impact they have? and
- How effective they are in bringing about a sustained performance improvement?

This research will investigate the impacts of an inspectorate on management controls of a local authority which will invariably question government’s interventions on poor performing organisations as per Walshe et al’s (2009) research. Our research will further broaden the impact of audits by the Audit Commission beyond the social work concluded by Munro (2004) to include all activities of local authorities.

1.3 Problem Formulation and Purpose

As indicated in the previous section, the research will investigate the impacts of the AC – a government intervention in the form of an inspectorate – on the performance management of a local authority.

Traditionally, MCS have been directed towards the interests of shareholders, through their focus on profits, efficiency and cost management systems (Parker & Lewis, 1995). This is due to organisational objectives been mostly stated in terms of profit and shareholder wealth maximisation (Malmi & Grandlund, 2009; Sundin et al., 2010; Phillips, 2003; Jensen, 2002; Parker & Lewis, 1995). Less is understood about how the interests of non-traditional stakeholders (environment, community, media or government) are incorporated into MCS (Sundin et al., 2010).

Walshe et al. (2009) identified that inspection and re-inspection as a form government’s intervention on poor performing council. The authors (Walshe et al., 2009) further questioned ‘when and whether some of these interventions work?’. Based on the preceding discussion, our first research question asks:

- Have the audit scores of the AC influenced MCS at LBL?

Otley (1980) argues that the constitution of appropriate MCS and the mix of controls within a control package are influenced by what the organisation is attempting to achieve, and that these objectives are explicitly incorporated into the MCS. Otley (1980) subsequently argues that the organisational objective is a construct on which the design and use of MCS is contingent. Chenhall (2003) adds the acknowledgment that organisational objectives are in part related to the various organisational stakeholders, and thus the way in which stakeholders relate to the design characteristics of MCS should be investigated. The preceding discussion brings us to the second research question:

- Why has the audit scores of the annual audits completed by the AC influenced MCS at LBL?

“Audits can be extremely valuable tools in management control situations. Auditors can serve as the ‘eyes and ears’ of management in assessing what are happening within the organisation, and they can also share their expertise by providing recommendations for improvement. Where audits are feasible, they can be an important alternative or supplement for other management control mechanisms, such as direct supervision or incentives” (Merchant & van Stede, 2007). Based on the preceding discussion, we have formulated the last research question as follows:

- How has the audit scores of the annual audits completed by the AC influenced the MCS of LBL?

Our research questions will investigate whether the AC’s activities have highlighted areas of weakness at LBL which have caused the Council to make changes in their MCS. The questions are also aimed at finding out how the Commission’s activities have made impacts and in what areas of MCS. The third research question particularly targets the reasons for the changes in MCS at LBL. As the AC works as a watchdog for the central government – a non-traditional stakeholder – the research questions will investigate whether this watchdog’s activities have made an impact on behalf of the stakeholder.

The purpose of this study is to examine the impacts of the work of the AC – through its annual audit and audit scores – on the MCSs of LBL. By the end of this research, the authors intend to highlight:

- The changes that have been made at LBL in terms of MCSs due to the audit scores.
- The MCSs that have been influenced by the audit and auditing score.
- The effects that the Audit Commission and audit scores have had on LBL’s MCSs.

This thesis will provide further research into government’s interventions on poor performing organisations. Additionally, the findings from this research will contribute to existing literature and will provide insight answers to the questions posed in Walshe et al’s (2009) previous research. Our research will further analyse the impact of audits by the Audit Commission beyond the social work concluded by Munro (2004) to include all activities of local authorities. The research will also use the ‘contingency’ theory of management control to explain the council’s reaction to the audit scores and recommendation. A theoretical model adopted from Asel (2009) and available in section 2.1.1 will be used in conjunction with the contingency theory.

Literature on audits, MCS and PSOs are currently available but in most cases as independent subjects. Our motivation for this topic is to make contribution to existing literature by investigating the impacts of auditing on MCS of a PSO. Additionally, the report’s findings will benefit management and colleagues at the authors’ work places on the impacts of the AC and audit results on the performance and direction of the council.

The thesis is a further development of a course assignment undertaken by one of the authors in this MBA programme. Both of our employers welcome this research work and have given us the necessary support and access to data and information in analysing the impact of the AC on the case study organisation’s performance.

1.4 De-Limitations

The focus of this research is to discuss the impacts of a non-stakeholder's activities on the management controls of local authorities. Due to the limited period available for this study, we concentrated on one local authority to keep data availability and collection feasible.

This study follows the selection fit which examines the way contextual factors are related to aspects of MCS with no attempt to assess whether this association is linked to performance (Chenhall, 2003; Merchant, 1985). The study was conducted in one case organisation with specific contextual factors and this makes generalisation of the impacts of the AC across all Councils imperfect. The research did not aim to study the effectiveness of control systems although the organisation has from 2007 to present being rated as 3 stars (out of possible four) and generally regarded as a very good authority.

1.5 Thesis Structure

Chapter 1 – provides study background, problem discussion and formulation, purpose and de-limitation.

Chapter 2 – describes and explains the methodology used in this paper.

Chapter 3 – describes the theoretical framework used for this research.

Chapter 4 – presents the results from the various data collections sources.

Chapter 5 – discusses the empirical findings in Chapter 4 using the theoretical framework.

Chapter 6 – provides conclusion to the findings and implications of the study.

2.0 THEORY

The objective of this chapter is to explain the theories used in the thesis. The section discusses theories regarding contingency theory, MCSs and auditing.

2.1 Contingency Theory

Contingency theory of management control assumes that the design and the application of MCS are influenced by the context in which they are applied (Chenhall, 2007). A contingency approach to MCS research therefore aims at identifying the best design and usage of MCS in a given context (Chenhall & Chapman, 2006). According to Chenhall (2003), there are various forms of theoretical fit that have been used to classify contingency-based research in MCS: selection, interaction and systems (Drazin & Van de Ven, 1985; cited from Asel (2009).

As previously stated, this study follows the selection fit which examines the way contextual factors are related to aspects of MCS with no attempt to assess whether this association is linked to performance (Chenhall, 2003; Merchant, 1985). The 'context' in this research refers to the various stakeholders and natural environment which affects the formulation of MCS. As cited in Sundin et al., (2010), Freeman (1984) defines stakeholders as "any group or individual who can affect or is affected by the achievement of the organisation's objective". There is general agreement on the individuals or groups who are identified as stakeholders: shareholders, employees and unions, customers, government and regulatory authorities, joint venture partners, suppliers and alliances, local communities and citizens and the natural environment (Post et al., 2002; Phillips, 2003; Berman et al., 1999; Sundin et al., 2010). According to Sundin et al., (2010), conventional approaches in mainstream management accounting research has typically been to focus on the orientation of MCS towards the preordained goal of shareholder wealth maximization (Malmi & Granlund, 2009). Other stakeholders such as suppliers, customers and management have also been considered in MCS research, but typically in their instrumental role towards profit maximization. Therefore, these stakeholders are classified as 'traditional' stakeholders.

There have been copious studies adopting traditional perspectives on MCS (Malmi & Granlund, 2009; Chenhall, 2003) and only a handful of studies considering community stakeholders are incorporated into MCS (Sundin et al. 2009; Henri & Journeault, 2009; Burnett & Hansen, 2008). As the salience of stakeholder groups such as the natural environment and the community increases, it is expected that these groups' interests will also begin to shape MCS orientation therefore challenging conventional ways of thinking about the cause, effect, and functioning of control systems. Currently, however, these stakeholders are considered non-traditional stakeholders as incorporation of their interests into MCS are not a primary focus in conventional approaches to studying MCS (Sundin et al., 2010).

2.1.1 Theoretical Model

As stated in the previous chapter, the research questions developed to investigate the impacts of the AC are:

1. Have the audit scores of the AC influenced MCS at LBL?
2. Why has the audit scores of the annual audits completed by the AC influenced MCS at LBL?
3. How has the audit scores of the annual audits completed by the AC influenced the MCS of LBL?

Furthermore, we have adopted a theoretical model based on contingency theory's approach to MCS to explain how a non-traditional stakeholder like the government via a regulator can influence on MCS through the introduction of annual audits, media reports of poor audits scores. The figure below summarises the theoretical model to be used in this thesis.

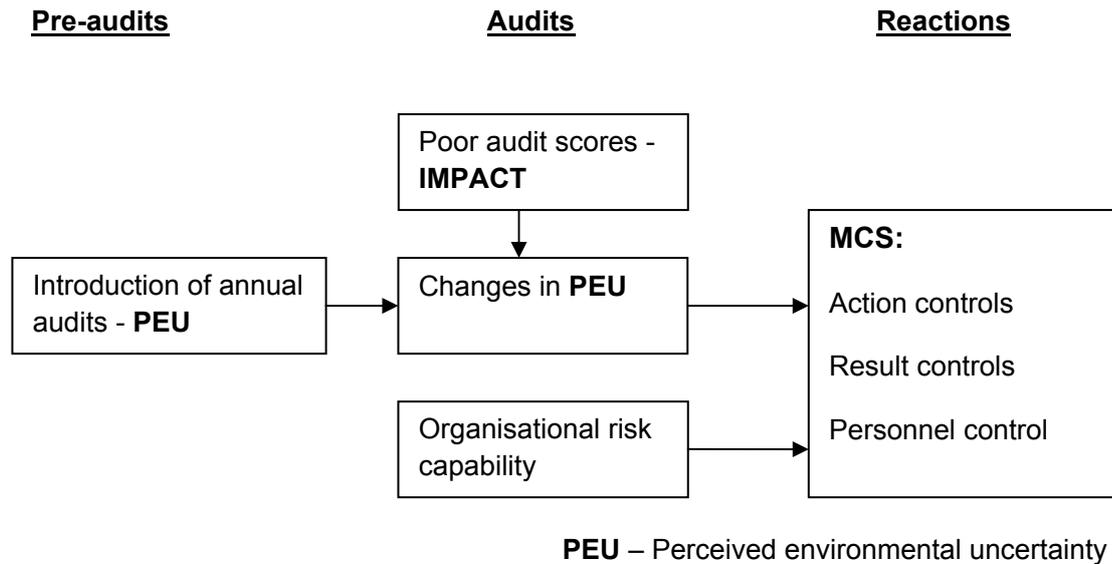


Figure 2.1 – Theoretical model (adopted from Asel, 2009)

The research questions were developed with the background knowledge of the research's theoretical model above. The first question will research the pre-audits section of the model and assess if the introduction of audits have influenced MCS at LBL. The 'poor audit score impact', 'changes in PEU', and 'organisational risk capability' will be studied under the second research question. The research question – "how has the audit scores of the annual audits completed by the AC influenced the MCS of LBL?" will study LBL's reactions to the work of the AC.

2.2 Audit Commission and auditing process

The Local Government Finance Act 1982 established the AC for Local Authorities in England and Wales on 21st January 1983. It began work as a public corporation on 1st April 1983 (Audit Commission, 2010). The Commission through the extension of its legislative powers have responsibility for auditing the local government organisations like LBL, social landlords, the Health and Social Care (Community Health and Standards) and the English National Health Service (Audit Commission, 2010).

Auditing in the public sector is pivoted on three fundamental principles (www.audit-commission.gov.uk):

- Auditors are appointed independently from the bodies being audited;
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business;
- Auditors may report aspects of their work widely to the public and other key stakeholders.

Within the auditing process, the Commission measure councils' performance against a set of criteria (refer to Appendix A for the AC's assessments criteria). To correctly ascertain the performance of a council, they ask for specific documents under the powers giving to them under the act. The councils are within their right to issue further documents voluntarily if they think these extra documents helps demonstrate their performance (Audit Commission, 2010).

The Commission scores authorities as:

4 star – excellent and improving strongly;

- 3 star – good and improving well;
- 2 star – improving adequately;
- 1 star – not improving/not improving adequately.

The report of the assessment score is delivered to the organisation, central government and other public bodies. They are also made publicly available through the commissions' electronic library. A council with more than three consecutive audit score of one star is classified as a failing organisation. Any failing organisation can be taken into 'special measures' by central government¹. The threat of or being placed in special measures is a considerable source of uncertainty and risk for any local government organisation.

In the article, 'The impact of audit on social work practice', Eileen Munro examined the way that the need for greater accountability, transparency, efficiency and value for money in all public sector organisations has created complex auditing systems in the UK (Munro, 2004). In the said article Munro (2004), identified several areas where the audits has improved performance such as in the area of removing discrepancies within service delivered based on individual professionals preferences and prejudices. However, she pointed out that the existing system of audits should be seen as a draft rather than as a completed piece of work, requiring continual critique and improvement because of several identified poor performance especially in the area of professional autonomy (Munro, 2004).

An audit process is undertaken in an orderly sequence of interrelated steps (Merchant & van Stede, 2007). The steps according to the authors are described as follows:

- i. The process starts with the planning phase during which an understanding of the criteria for the report's end user and the scope of the audit are developed;
- ii. The second phase of the process involves obtaining and evaluating evidence;
- iii. The third phase of the process requires judgement, based on the evidence, as to whether or not the criteria have been met;
- iv. The last phase of the process is communicating the results of the audit.

2.3 Management Control Systems (MCS)

MCS are the systems and processes in place to align employee behaviour to the achievement of organisational objectives (Merchant and Van de Stede 2007; Otley and Berry, 1980; and Chenhall, 2003). Otley (1980) argues that the constitution of appropriate MCS and the mix of controls within a control package will be influenced by what the organisational is attempting to achieve, and that these objectives are explicitly incorporated into the MCS. Otley (1980) subsequently argues that the organisational objective is a construct on which the design and use of MCS is contingent. Chenhall (2003) adds the acknowledgment that organisational objectives are in part related to the various organisational stakeholders, and thus the way in which stakeholders relate to the design characteristics of MCS should be investigated.

Silean and Williams (2009), describes the four key components of MCS as desired ends, actors, control implementation, and control ends. The 'desired ends' describe the expected ends or the final destination of an action at the end of an operational cycle (Silean & Williams, 2009). The desired ends may have two aspects: the 'direction' of an action which describes where to go, rather than what to achieve; and the 'yardstick' to measure the progress of an action or the result of an action (Silean & Williams, 2009). Silean and Williams (2009) further postulate that if the

¹ Special measures: this occurs when central government takes administrative control of a failing organisation to improve its performance, audit rating, service efficiency and effectiveness.

desired ends are tangible and physically quantifiable, they can be used as measurement criteria where the comparison process can take place. According to Silean and Williams (2009), 'actors' describe individuals or groups of individuals (within a system) who are the objects being controlled. Control implementation describes the process of ensuring that actors work towards the desired ends. They consist of control types and control implementation stages (Silean & Williams, 2009). The control ends or tools refer to instruments that are used in performing the control function concerning the desired ends (Silean & Williams, 2009).

2.3.1 Forms of Controls

The controls types relevant to LBL and discussed in the subsequent paragraphs are result controls, personnel controls, action controls, administrative controls and cultural controls.

The purpose of result controls is to make employees become concerned about the consequences of their actions thus empowering the employees to take actions which will result in desirable results (Merchant & van Stede, 2007). These controls create the awareness among employees about their actions; rewards them for desirable behaviours and punishes for poor results. These controls are useful as a means of controlling the behaviours of professional employees particularly those with decision authority (Merchant & van Stede, 2007). The implementation of results controls requires: defining the dimension on which results are desired (or not desired); measuring performance on these dimensions; setting performance targets for employees to strive for; and providing rewards as a means of encouragement (Merchant & van Stede, 2007). Defining result-measurement dimensions correctly and aligning it (congruent) to the organisations' objectives ensures that the results controls encourage employees to the right things. In addition to being congruent, results measures should be (1) precise, (2) objective, (3) timely, and understandable (Merchant & van Stede, 2007).

Personnel controls are designed to make it more likely that employees will perform the desired tasks satisfactorily on their own (Merchant & van Stede, 2007). According to Merchant and van Stede (2007), personnel controls serve any of three basic purposes: clarifying expectations; encourage self-monitoring by employees; and ensure that employees have the capabilities, resources, and are able to do good job. According to Abernethy and Brownell (1997), reliance on personnel forms of control has positive effects on performance where task uncertainty is highest. Personnel controls are implemented through the selection and placement of employees, training, and job design and provision of necessary resources (Merchant & van Stede, 2007). Employee selection and placement – finding the right people to do a particular job and giving them both a good work environment and the necessary resources – can increase the probability of getting a job done properly (Merchant & van Stede, 2007).

Administrative control systems direct the behaviours of employees through: the organising of individuals and groups; the monitoring of behaviour and who you make employees accountable to for their behaviour; and the process of specifying how tasks or behaviours are to be performed or not performed (Malmi & Brown, 2008). These controls consists of organisational design and structure, governance structures within the firm, and policies and procedures (Malmi & Brown, 2008). Flamholtz (1983) as cited in Malmi and Brown (2008), argued that organisational structure is a form of control which works through functional specialization, and contributes to control through "reducing the variability of behaviour and, in turn, increasing its predictability". Organisational governance include the formal lines of authority and accountability as well as the systems which are in place to ensure that representatives of the various functions and organisational units meet to co-ordinate their activities both vertically and horizontally (Malmi & Brown, 2008). The governance structure relates to the company's board structure and composition, as well as its various management and project teams (Malmi & Brown, 2008). The use of policies and procedures is the bureaucratic approach to specifying the processes and behaviour within an organisation (Malmi & Brown, 2008). Policies and procedures include actions controls as discussed by Merchant and van Stede (Malmi & Brown, 2008).

Action controls are measures implemented to ensure that employee's actions are desirable to the organisation; they also prevent undesirable employee's behaviours by making their actions

themselves the focus of the control (Merchant & van Stede, 2007). Behavioural constraints, pre-action reviews, action accountability and redundancy are forms of controlling the actions of employees. Behavioural constraints are controls implemented to make it impossible or almost impossible for employees to do unacceptable actions. Pre-action reviews involve the scrutiny of the action plans of the employees being controlled (Merchant & van Stede, 2007). Action accountability focuses on holding employees accountable for the actions they take. Redundancy is more of a contingency control which involves assigning more resources to an assignment than it is normally required.

Cultural controls encourage mutual monitoring; a powerful form of group pressure on individuals who deviate from group norms and values (Merchant & van Stede, 2007). They are implemented through codes of conduct, group-based rewards, intra-organisational transfers, physical arrangement and tone at the top (Merchant & van Stede, 2007). Socialisation-based control is an important tool in the control portfolio for an organisation in a dynamic environment (Nieminen & Lehtonen, 2008). Cultural control is the accumulation of norms and values that are originated from common norms, beliefs, and shared values among the actors in a group without having any relationship with written norms (Silean & Williams, 2009). Another accumulation of norms and values which can be used as an informal control is surveillance control. Surveillance control may come from written norms and values that have been internalised by the actors, and applied to the actors who perform the tasks by watching and guiding them toward the proper way of performing the tasks (Silean & Williams, 2009).

2.3.2 Performance Measurement

According to Van de Walle and Bovaird (2007), the link between performance measurement and the use of this information in decision making is often assumed (Ho, 2005; Pollitt, 2006; Moynihan & Ingraham, 2004 as cited in Van de Walle & Bovaird, 2007). Yet, Læg Reid et al. have described 'use' as the achilles' heel of performance information systems (Læg Reid, Roness, & Rubecksen, 2006). They further pointed out that researchers are indeed very sceptical about the usefulness of performance indicators (Askim, 2006a). At the same time, whereas some research on the use of information is available in the streams described above, academic interest in the 'use' of (performance) information has so far been very limited (Pollitt, 2006). Much of the evidence on whether the information coming from performance measurement is actually used in decision making is still rather anecdotal (de Lancer Julnes & Holzer, 2001 as cited in Van de Walle & Bovaird 2007). Our research will attempt to answer this question with evidence.

According to Grafton et al., (2010), the two uses of performance measures serve two distinctly different purposes in supporting strategy implementation and development: the feedback use of performance measures significantly supports the exploitation of current capabilities; and the feed-forward use of performance measures supports the search and identification of new capabilities. Additionally, performance measures that are part of management controls provide some non-motivational, detection-type control benefits of a cybernetic nature (Merchant & van Stede, 2007). Performance targets affect employee behaviour in two basic ways: they stimulate action by providing conscious goals for employees to strive for; and they allow employees to interpret their own performance (Merchant & van Stede, 2007). According to Silean and Williams (2009), MCS should be able to identify potential factors to motivate the actor being controlled to remain within a preferred behaviour such as monetary reward or bonus, and hierarchical promotion. Merchant and van Stede (2007) support this assertion by writing "organisations can derive motivational value from linking valued rewards to results that employees can influence".

In the case of local authorities in UK, following the legislation which required councils to provide performance indicators, and to encourage improvements, the AC developed and uses comparative studies and league tables to assess councils' performance (Kelly, 2003).

2.2.3 The Balanced Scorecard (BSC)

Balanced score card (BSC) is management strategic tool developed by Kaplan and Norton that proposes a combination of short-term measures and leading indicators (Nørreklit, 2003: Merchant

& van Stede, 2007). The objective of BSC-type measurement system is that if the organisation tracks the right set of leading indicators and gives them proper importance, then profits will inevitably follow (Merchant & van Stede, 2007). It allows managers to look at the business from four important perspectives (Kaplan & Norton, 1992). These perspectives are:

- Financial perspective: How do we look to shareholder?
- Customer perspective: How do our customers see us?
- Internal perspective: What must we excel at?
- Innovation and learning perspective: Can we continue to improve and create value?

BSC brings together, in a single management report, many of the seemingly disparate elements of a company's competitive agenda: becoming customer oriented, shortening response time, improving quality, emphasizing teamwork, reducing new product launch times, and managing for the long term (Kaplan & Norton, 1992). Kaplan and Norton (1992) further believes that, the BSC forces managers to consider all the important operational measures together, the balanced scorecard lets them see whether improvement in one area may have been achieved at the expense of another; thus preventing sub-optimization.

BSC like any theory has had its fair share of criticism. Nørreklit (2003) criticised BSC for its control model and the lack of cause-and-effect relationship between suggested measures. For instance, Nørreklit does not see the cause-and-effect relationship between customer satisfaction and loyalty, and between loyalty and financial results (Nørreklit, 2003). She also argues that the model does not take into consideration any strategic uncertainty in terms of the risks involved in events which may threaten or invalidate present strategy (Nørreklit, 2003).

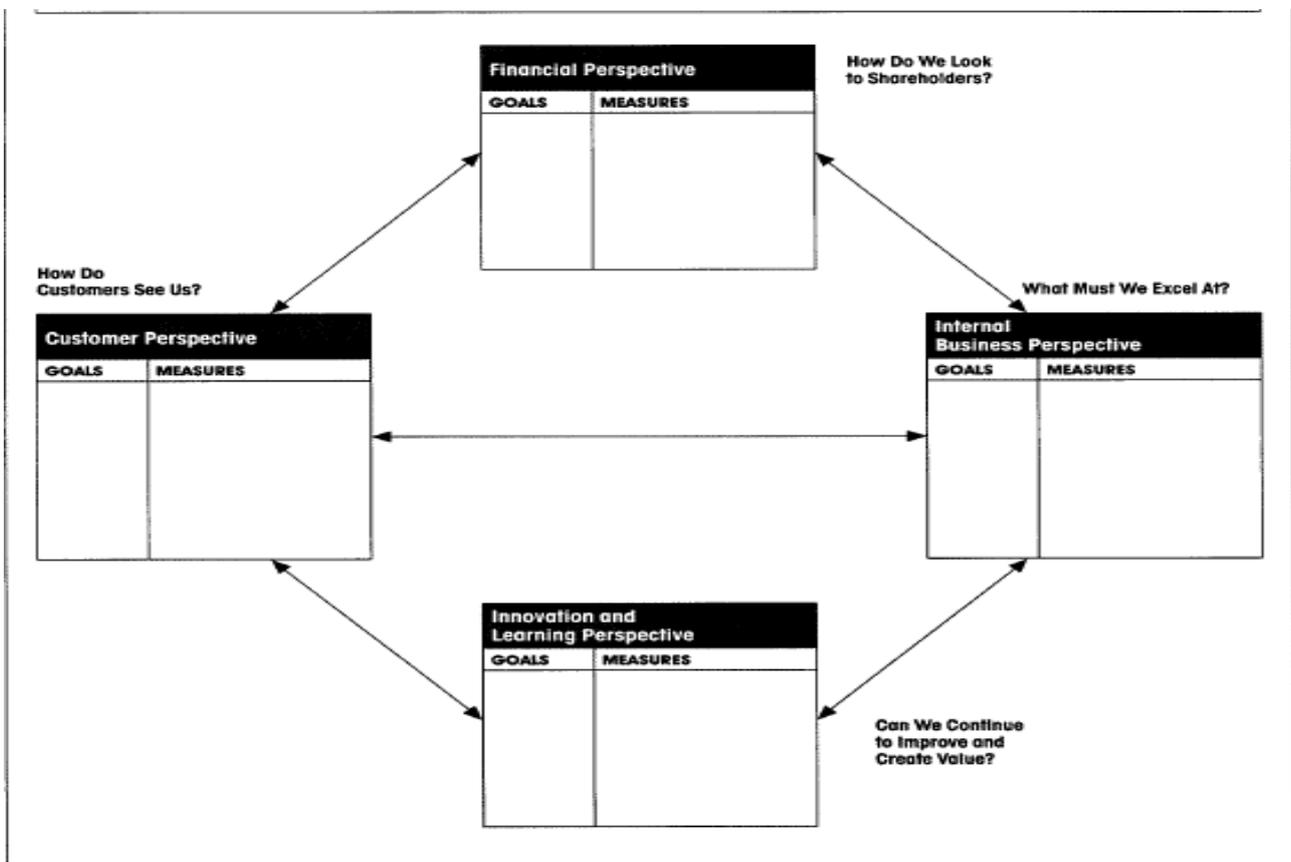


Figure 1.2 – The Balanced Scorecard

(Source: Kaplan & Norton, 1992)

3.0 METHOD

The research will be conducted as a qualitative single case study on the London Borough of Lambeth. This case organisation was selected due to its theoretical appropriateness. Qualitative and quantitative analyses will be used to analyse: the submissions and documents to the AC, the audit recommendations, and the improvement plan, to examine how the results have influenced MCS at LBL.

3.1 Research Approach

The development of knowledge in a research depends on the philosophy behind the research (Saunders et al., 2003). According to Saunders et al., (2003), three research philosophies dominate literature: positivism, interpretivism and realism. The researcher using a positivism philosophy assumes the role of an objective analyst; steadily making detached interpretations about those data that have been collected in an apparently value-free manner (Saunders et al., 2003). Interpretivists seek to understand the subjective reality of those they study in order to comprehend their motives, actions and intentions (Saunders et al., 2003). The last research philosophy (realism) is based on the belief that a reality exists that is independent of human thoughts and beliefs (Saunders et al., 2003).

Saunders et al. (2003) further states that, research approach may be deductive or inductive and the choice of an approach depends on the extents to which a researcher is clear about the research theory at the beginning of a research (Saunders et al., 2003). Deductive research approach involves the development of a theory that is subject to a rigorous test (Saunders et al., 2003). On the contrast, inductive research approach involves collecting data prior to the formulation of a theory (Saunders et al., 2003).

For this case study, the research philosophy adopted was positivism. This was because the philosophy provided a highly structured methodology that facilitates replication, and quantifiable observations that lend themselves to statistical analysis (Saunders et al., 2003). Additionally, the philosophy allowed us to make independent interpretations of the data that we collected.

With the availability of extensive research on the individual subjects of auditing and management controls, deductive approach provided a better option for achieving the research's objectives. This approach will enable us to explain the relationships between data variables.

3.2 Research Method Implemented

After careful considerations of the different research methods and the research objectives, the authors decided to undertake this research as a single case study. In general, case studies are the preferred method when (a) "how" or "why" questions are being posed, (b) the investigator has little control over events, and (c) the focus is on contemporary phenomenon within a real-life context (Yin, 2008). Based on Yin's (2008) notions about case study and our previous experiences, we felt optimistic that case study will be the best method to achieve the research objectives.

3.2.1 Selection of Research organisation

From the decision to adopt a deductive research approach and with the research objectives outlined, it was imperative to select an organisation where data was available and accessible, and also where we can have access to top-managers for the interviews. LBL was therefore selected as the case study organisation.

During the initial document review of the council, we saw that the council had made significant improvements in its performance. The significant improvement inferred from the background review, raised concerns about 'how' and 'why' the council was making those improvements. This became a baseline for the research. The selection of LBL was also to mitigate the problem of data accessibility. As one of the authors is an employee of Lambeth, data for the analysis was accessible and interview respondents were enthused to cooperate.

The selection of interview respondents at LBL was based on the level of authority and experience, and the number of years spent with the company. To maintain the quality of responses, managers at different organisational levels and functions within the company were interviewed. We conducted interviews with five senior managers who have been instrumental in the implementation of plans and strategies at LBL. The interview questions were designed aligned with the case study's objective. Attached in Appendix A is the format and list of questions that we asked during the interviews.

3.3 Data Collection

Case study evidence may come from six sources: documents, archival records, interviews, direct observation, participant-observation, and physical artefacts (Yin, 2008). Regarding the data collection for this study, a comprehensive field work protocol will be developed (Yin, 2008). During this field work, several methods will be used to collect data including interviews, archival document reviews, and attendance of council events and direct observations. Yin (2008) encourages the use of several sources of data to ensure reliability and militate against bias.

According to Yin (2008), evidence for case studies may come from six sources: documents, archival records, interviews, direct observation, participant-observation, and physical artefacts. Yin (2008) further stresses the importance of following some overriding principles in data collection to increase the case study's quality. These principles include: (1) using multiple source of evidence covering the same facts or findings; (2) creating a case study database; and (3) maintaining the chain of evidence among the questions, data and conclusion.

Therefore, a comprehensive field work protocol was developed for the study's data collection during which several methods were used. This included interviews, documents, archival records, participant and direct observations. These methods were congruent with the research philosophy, approach and objectives. Yin (2008) also encourages the use of several sources of data to ensure reliability and militate against bias.

3.3.1 Interviews

We conducted interviews with senior managers who have being with the organisation over the period analysed. These included key people who had been part of the implementation team and other managers for their experience through the changes. A semi-structured form of interview was selected for data collection in this case study. The reason for using this form of interview was to give both the authors and the respondent the flexibility with the choice of questions; the choices of questions were tailored to specific respondents. Refer to Appendix A and B for the interview questions guide and transcripts respectively.

We further interviewed some of the most senior directors. These were the Chief Executive, Executive Director for Finance and Chief Internal Auditor. These interviews, however, were more in-depth. This allowed them the opportunity to develop the theme of the interview. We explained the aims of the interview and they were able to lead the discussion to areas of the MCS that they felt have changed the most due to the audits (Yin, 2008). However, a further interview with HR Director and Policy Director took the form of focused interviews. These interviews were used to confirm the information identified through the qualitative analysis of the improvement plans, and policy documents (Yin, 2008). Thus, all the interviewed questions measured and identified the impact of the audit on the organisation's performance.

In this research document, we used 'discourse' analysis to interpret the interview notes and findings. This is a method of qualitative analysis in which the basic analytic unit is the interpretative repertoire (Wetherell & Potter, 1988, and cited in Talja, 1999). It shows the value of a method of qualitative analysis which does not aim at capturing participants' authentic intentions, meanings, or experiences. In discourse analysis, interview data are analysed at a macro-sociological level, as social texts. Discourse analysis is an approach which surpasses the dichotomy between subjective meanings and objective reality, as well as the dichotomy between user-centred and system-

centred research. It concentrates on the analysis of knowledge formations, which organize institutional practices and societal reality on a large scale (Talja, 1999).

As stated in Talja (1999), our analysis of the interpretative repertoires was completed like putting together a jigsaw puzzle. The interviews were not interpreted as stories having a clear and distinguishable message and meaning. However, all the accounts produced by the participants are taken into consideration and analysed in order to identify significant patterns of consistency and variation in them. We then identified the starting point behind each account, what kind of limitations are based on the same perspective, and what other statements in participants' interview talk are based on the same perspective. The final point of the analysis is the systematic linking of descriptions, accounts, and arguments to the viewpoint from which they were produced, and the naming of the different interpretative repertoires - usually by concepts which repeatedly occur in participants' talk and which tend to be used when the topic is approached from a particular angle.

After the data analysis, a draft copy of the report was sent to the interview respondents to review and comment. Their comments were taken on board and the necessary changes were made.

3.3.2 Documents and Archival Records

Both current and archival documents were collected and analysed during the case study. Documents obtained from the AC's website included: audit reports, articles, announcements and previous studies. The documents made available to the authors by LBL were management reports, audit submissions, audit reports, policy documents, progress reports, proposals and articles. We collected and analysed the statutory and voluntary submissions presented by the council to the AC. We also reviewed LBL's improvement plans, people-management policies, performance management procedures, audit results and recommendations.

Other documents collected and analysed were the statutory and voluntary submissions by the council to the AC, communications submitted to the media, the improvement plans, and people management policies including performance management procedures, audit results, and recommendations. The documents from the AC providing direction, instructions, and scores to LBL will also be reviewed.

Similar to other data sources, documents and archival records were analysed using content analysis. We examined each document to identify the changes attributed to the audit and looked for collaborating evidence from other data sources such as the interviews and observed events.

3.3.3 Direct and Participant Observation

We attended LBL events and programmes that provided insight into the changes that have been implemented with the MCS as a result of the audits score. The actual events that we attended were driven by the interviews with the senior managers. We got the permission to attend events such the council inductions, leadership network, learn at work day and performance review and appraisal training

The study was conducted as a participative observation and one of the authors, as an employee of the case organisation, was part of the team recruited to manage and influence the improvements at the case organisation. This participant observation provided an opportunity to gain access to events and information at the case organisation that would have otherwise be inaccessible to the study (Yin, 2008). This opportunity enabled him to observe and describe the MCSs in the company which is congruent to Yin's (2008) assertion that participant observation provides a distinctive opportunity in terms of the author's ability to perceive reality from the viewpoint of someone 'inside' the case study rather than external to it. By virtue of this opportunity, the authors were able to collect both formal and casual information for the study. During the visitations to conduct the study's interviews, the second author became an observer of the MCSs implemented at first hand through inductions.

3.4 Research Analysis

The thesis uses content analysis to analyse all the statutory and voluntary submissions by the council to the audit commission, communications submitted to the media, the improvement plans, and people management policies including performance management procedures, audit results, and recommendations.

The method used to develop the dependant variables in this study is content analysis which is widely used in the area of social science and environmental reporting. It was used to analyse both the statutory and voluntary submissions by the council to the AC, communications submitted to the media, the improvement plans, and people-management policies including performance management procedures, audit results, and recommendations. Although it is not without its critics, we have chosen it due to the fact that it can be applied to examine any piece of writing or occurrence of a recorded communication. Content analysis is used in large number of fields especially where the language is important (Tilling & Tilt 2010). The uses of content analysis include:

- To identify the intentions, focus or communication trends of an individual, group or institution
- To describe attitudinal and behavioural responses to communications (Krippendorff, 2004; Neuendorf 2002)

After the initial qualitative analysis of all the documents above, a detail quantitative analysis will then be undertaken on the number of documents issued to the AC by LBL both under statutory obligation and voluntarily.

3.4.1 Qualitative Analysis of the Audit Results and Recommendations

The disclosures made by LBL were classified by emergent themes. Three categories were identified for the documents analysis which were: financial, operational or service performance and use of resources. The key words used to such through the document database were finance, financial, resources, improvement and performance.

After the initial qualitative analysis of all the documents above, a detail quantitative analysis was then undertaken on the number of documents issued to the AC by LBL both under statutory obligation and voluntarily.

3.4.2 Qualitative Analysis of the Improvement Plan

Improvement plans at LBL were analysed to see what their impact were on MCS. We examined clear statements of intent to change anything related to the management control system such as performance management system. Key words used for the search were finance, financial, resources, improvement, performance, incentive, reward, plan financial plan, budget, policies and control.

4.0 EMPIRICAL DATA

In this section, we have summarised the collected data via the interviews and document search. The first sections of this chapter provide brief description of the participant characteristics of this case study. The second section provides the empirical information we obtained during the data collection.

4.1 The Case Organisation

4.1.1 Background to London Borough of Lambeth

In 1965 the old parishes of Lambeth, Streatham and Clapham were combined to make the LBL (www.lambeth.gov.uk). The Council is one of 14 local authorities which make up 'Inner London' of United Kingdom. It is one of the most densely populated and multi-cultural Inner London boroughs, with a population of around 270,000 (www.lambeth.gov.uk). Based on the 2001 census, 38% of Lambeth's population are from ethnic minorities, the seventh highest figure for a London borough. Approximately 150 languages are spoken in the borough. After English, the main languages spoken are: Portuguese, Yoruba, French, Spanish and Twi (www.lambeth.gov.uk; Data Management and Analysis Group 2007).

LBL is a public sector organisation with a primary function of providing services for the local residents. As a local authority, LBL does not have shareholders per se as its primary role is deliver services to local residents. However, these residents are both customers and shareholders because the council renders services to them and the Council is accountable to them as tax payers. The Council delivers around 700 services ranging from street cleaning, community safety, local emergency planning, care for the elderly and the vulnerable to local residents (Lambeth Council Induction).

4.1.2 Organisational Structure

The council is led by the Chief Executive (CE) and four Executive Directors (ED) – each responsible for one of the three service delivery departments and the internal resource department. These five top-level managers make up what is called the Strategic Leadership Board (SLB) which is chaired by the CE (LBL's Intranet web page; interview with HR Director). Refer to Appendix C for LBL's organisational structure. The organisation has approximately 3500 employees (www.lambeth.gov.uk).

4.1.3 Local Political Context

There are three parliamentary constituencies in Lambeth Borough with each constituency having its own MP (www.lambeth.gov.uk). The local political administration has not been steady over the period of this research. The running of the council had shifted from British Labour party to a coalition of Liberal Democrat and the Conservative parties. In 2006, the administration shifted back to the Labour Party and has remained so ever since. Refer to Appendix D for the political changes at LBL during the research period. LBL's SLB is accountable to 'the Cabinet' which is made up of up to ten members of the dominant political party. The board translates their political will and manifesto commitment into management actions in the context central government legislation and statutory requirement (LBL's Divisional Director HR). The Council is made up of 63 elected councillors who are responsible for agreeing policies about provision of services and how the Council's budget allocation is utilised (www.lambeth.gov.uk).

4.2 The Audit Commission

The Local Government Finance Act 1982 established the AC for Local Authorities in England and Wales on 21 January 1983; the Commission began work as a public corporation in April of the same year (www.audit-commission.gov.uk). The commission through the extension of its legislative powers have responsibility for auditing the local authorities including LBL, social

landlords, the Health and Social Care (Community Health and Standards) and the English National Health Service (www.audit-commission.gov.uk).

“The duties and powers of auditors appointed by the AC are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board. Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body” (www.audit-commission.gov.uk).

4.2.1 Performance Assessments

In 2002, the AC introduced the Comprehensive Performance Assessment (CPA) – an assessment which asked councils questions about their capacity to improve (www.audit-commission.gov.uk). The assessment helped to develop a shared focus between the political and managerial leadership within the councils (www.audit-commission.gov.uk). Refer to Appendix E for the Commission's assessment framework.

In 2005, the Commission responded to the need for councils to deliver continuous improvement by introducing ‘CPA -The Harder Test’ (www.audit-commission.gov.uk). This assessment raised the bar of inspection, introduced more self assessment, emphasised more on cost-cutting services and introduced minimum standards (www.audit-commission.gov.uk).

By 2008, councils had improved and a new level of challenge was needed to ask more fundamental questions about performance from the citizen's perspective (www.audit-commission.gov.uk). In response to this, the Audit Commission with the backing of the Local Government and Public Involvement in Health Act 2008 introduced the comprehensive area assessment (CAA) (www.audit-commission.gov.uk). This assessment focussed on councils delivering to meet the needs of local people.

To correctly ascertain the performance of a council, the Commission requests for specific documents under the powers giving to them under the 1998 Act. The councils are within their right to issue further documents voluntarily if they think these extra documents can help demonstrate their performance (Audit Commission, 2010). The Commission scores authorities as:

- 4 star – excellent and improving strongly.
- 3 star – good and improving well.
- 2 star – improving adequately.
- 1 star – not improving/not improving adequately.

** Rules for determining the overall Corporate Assessment score

Scores on five themes	Overall Corporate Assessment score
Two or more themes with a score of 4 None less than a score of 3	4
Three or more with a score of 3 or more None less than a score of 2	3
Three or more themes with a score of 2 or more	2
Any other combination	1

Figure 2.1 – Rules for determining audit scores

(Source: www.audit-commission.gov.uk).

The report of the assessment is delivered to the organisation, central government and other public bodies. The reports are also made publicly available through the Commissions' electronic library. A council with more than three consecutive audit score of one star is classified as a failing organisation. Any failing organisation can be taken into 'special measures' by central government².

4.3 Audit Assessments at LBL

The paragraphs below summarises of the audits scores and recommendations from the AC to LBL between the year 2000 and 2010. Document submissions made by LBL to the commission are also summarised in this section.

4.3.1 Document Submission to the Audit Commission

Under the Audit Commission Act 1998 and the Local Government Act 1999, the AC requests statutory information from Councils for auditing purposes. The period between 2000 and 2003, LBL submitted only the documents requested under its statutory responsibility. LBL started submitting voluntary documents – items that have not been specifically asked for but delivered to the auditors by the choice of the council – in 2004 and this practice has improved year on year from 2005. This is shown in figure 3.2 below. Records available indicate that the number of disclosures from LBL local media and others bodies, both voluntary and under statutory obligations also increased considerably in the 2005 audit year.

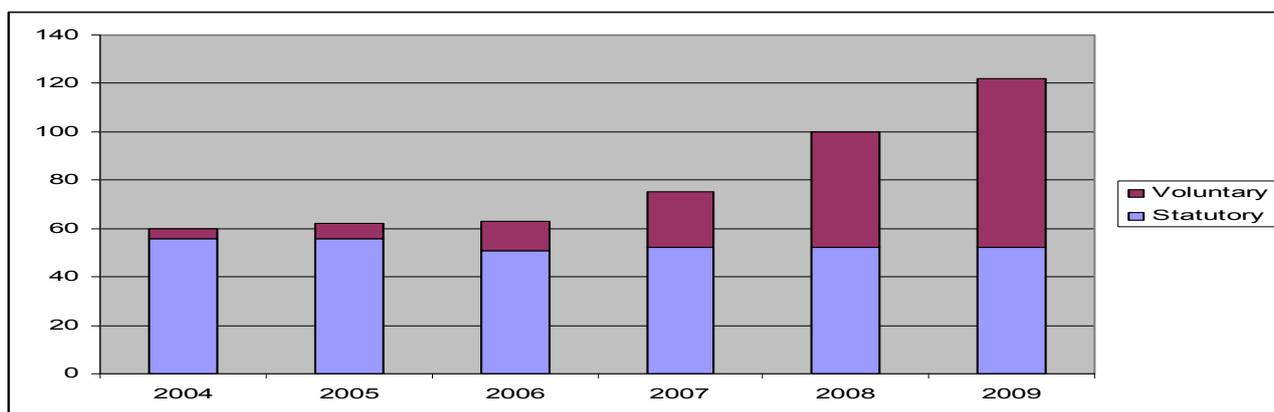


Figure 3.2 – LBL's statutory and voluntary submission to the AC
(Source: Lambeth Council)

4.3.2 Summary of Audits Scores

Between 2000 and 2004, LBL had an overall score of one star (out of four) when measured on the Commission's CPA Framework. The council could not improve so much and also scored 1 star in the Commission's CPA -The Harder Test in 2005. From 2006 to 2008 audit, the Commission scored LBL three stars in its current level of performance under the CPA Framework. LBL has been scoring three stars in the Commission's CAA since 2009. Refer to Appendix F for the corporate assessments showing breakdown of the scores.

4.3.3 Audit Commission's Recommendations

From the annual audits undertaken between 2000 and 2004, the Commission kept recommending improvements in the council's areas of financial management, performance management, cultural services, housing, and use of resources. For instance, in the Commission's Corporate

² Special measures: this occurs when central government takes administrative control of a failing organisation to improve its performance, audit rating, service efficiency and effectiveness.

Assessment Report for 2002, the report stated that in order to improve its capacity to secure continuous improvement, the Council should:

- *Establish a prudent financial strategy that (1) returns balances to solvency and builds them to an appropriate level to provide protection against one-off pressures, (2) underpinned improved financial management;*
- *Adopt a more consistent approach to community consultation and engagement through quality and outcome monitoring;*
- *Adopt a more outwards-looking set of corporate priorities that address local issues of deprivation and cultural diversity, having regard to the outcome of consultation as above; underpin these with clear targets, outcomes and milestones that can be used to measure progress and success;*
- *Improve service and financial planning so that resources follow the council's priorities, and align with the completed medium-term financial strategy;*
- *Fill executive director vacancies as a priority;*
- *Continue to develop capacity to address key skills gaps, including contract management, procurement, project management and ICT, clearly identifying the resources required;*
- *Ensure that the performance management system is implemented consistently council-wide, and develop the role of scrutiny in performance management;*
- *Develop and focus on a few key performance indicators for service improvement, and link to the development of the local public service agreement;*
- *Establish and publicise service standards and incorporate customer feedback and substantiated complaints into the performance framework to drive improvement;*
- *Establish a sustainable strategy to address investment backlog, in particular in housing repairs, and link the outcomes and priorities to the medium-term financial strategy;*
- *Develop and embed equalities in human resources and service delivery;*
- *Enhance the corporate strategic framework as a priority through the production of key missing strategies.*

In the Commission's 2005 Annual Audit Inspection letter to LBL, the following were identified as the areas requiring urgent attention:

- *Review and strengthen performance management arrangements to ensure that the current ambitious change programme stays on course;*
- *Continue to prioritise service improvements, particularly in cultural services;*
- *Ensure that its financial health position continue to improve;*
- *Improve the consistency of the quality of working papers supporting the Council's financial statements and resolve outstanding issues on the Council's 2005/2006 accounts; and*
- *Implement individual recommendations arising from the audit and inspection reports issued.*

The key actions required by the Council to address issues arising from the 2006/2007 audits were:

- *Ensure that that the progress made in improvements to the Council's use of resources become embedded;*

- *Strengthen the arrangements for the preparation of the financial statements, in particular the capital accounts;*
- *Continue to take steps to bring the Housing Revenue Account (HRA) back into balance;*
- *Maintain the ongoing drive to deliver decent homes standard by 2010 while also establishing effective arrangements for the proposed Arms Length Management Organisation (ALMO);*
- *Begin to explore the people, systems and process changes likely to be needed to ensure that the requirements of the International Financial Reporting Standards (IFRS), which become effective from 1 April 2010, are met; and*
- *Implement agreed recommendations arising from our audit and inspection reports.*

In the Commission's Annual Audit and Inspection Letter 2009 after the Audit 2007/2008, the Commission recommended that the Council should:

- *Address the areas for improvement identified in our corporate assessment and direction of travel reports;*
- *Take further steps to reduce the proportion of indicators relating to satisfaction with Council services, school exam and test results, housing repairs, recycling, and quality of the local environment which are in the lowest 25 per cent when compared with other councils;*
- *Ensure that proper arrangements and resources are in place to secure the prompt conclusion of the delayed 2007/08 audit;*
- *Ensure that there is a reliable fixed assets register in place for 2008/09; and continue with the efforts to bring the Housing Revenue Account (HRA) into balance.*

The areas of improvement identified in the Commission's Corporate Assessment 2009 report are:

- *The Council should focus on workforce development in general and middle management development in particular in order to ensure that there is sufficient capacity to deliver the priorities and aspirations for high performing services which are at the centre of the drive for improvement by the Executive and senior management;*
- *The Council should take steps to increase the availability of information about service standards so that all members of the public are aware of the standards they can expect to receive;*
- *The Council should build on its work to reduce the number of complaints and move to a broader use of complaints, comments and compliments which are fully analysed corporately and used to inform and improve services across the Council;*
- *The Council should prioritise the development and delivery of a coordinated range of services to promote healthier communities and support the well being of older people.*

4.4 Management Controls at LBL

4.4.1 Financial Controls

LBL prepares and delivers annual capital and revenue budget; this budget sets out the organisation's financial plans and allocates resources to various services, departments, activities and projects. The budget is agreed with the various costs, revenue and profit centres through-out the organisation. Each finance centre is provided with information on their performance through the

monthly budget monitoring meeting. The Head of Finance from each department monitors progress and reports any exceptions.

Heads of Finance meetings are organised quarterly to allow all the Heads of Finance to report back to the Executive Director responsible for finance and resources. This information feed into the feedback loop that helps update the budget; review performance; and agree project sponsorship details and plans for the following year.

4.4.2 Capital and Revenue Budgeting

Whilst there had always been the yearly budgeting processes, the outcome document had not had much credibility anywhere outside the organisation. By the year 2007, the Audit Commission had not been able to issue a qualified opinion on the 2004/05 budget. On the 2005/06 budget, the audit had identified a number of significant errors and material technical accounting issues which needed to be resolved. In the year 2005/06, Housing Revenue Account (HRA) was overspent by £5m.

To improve this situation, a consultative annual budget planning process was implemented. The Council further relied on accurate feed forward information and robust accounting methodology. The outcome of this process was the issuing of revenue and capital budget by the Council that stood the test of external audit and robust assessment. The various finance centres were identified and financial responsibilities were delegated to them. The managers were then held to account.

The Finance Director formed and chairs the quarterly Head of Finance managers meetings which review the financial position of the budget and review any serious exceptions or poorly performing finance centres to keep an eye on the finance.

4.4.3 Financial Accountability

Once the revenue and capital budget are agreed, they are used to co-ordinate the activities of management throughout the major projects and activities that organisation implement and sponsor. The budget for all activities and projects are allocated in advance through the revenue and capital budget, and monitored through reviews. Project managers are made aware of their budget allocation and are regularly monitored.

The Council has a defined finance policy stipulating specific actions that are classed as gross misconduct and for which employees are summarily dismissed. The finance policy comes with finance guide for managers. The organisation's internal audit team regularly audits business units to ensure compliance. The audit team also investigates and manages whistle blowing procedures as well as some of employee complaints. Other policy standards such as declaration of interest, gift register, separation of duties and the two procurement boards serve as pre-action reviews in the interest of the organisation. Lambeth provides free mandatory procurement training for employees involved in procurement exercises on the policy and procedures.

4.4.4 Corporate Plan

The corporate plan is the outcome of the review process of the local area agreement, finances available, sustainable community strategy and internal resource capabilities. The outcomes allocated to the Executive Directors from the corporate plans are delegated to their service managers. This then forms the Business Units service plans. Service area managers delegate these outcomes down and finally to employees as their individual performance measures (operational plans).

The key operational performance measures are derived from the corporate plans. These are linked to the individual employees' performance measures through what is called the 'golden thread' (Refer to Figure 4.1 below).

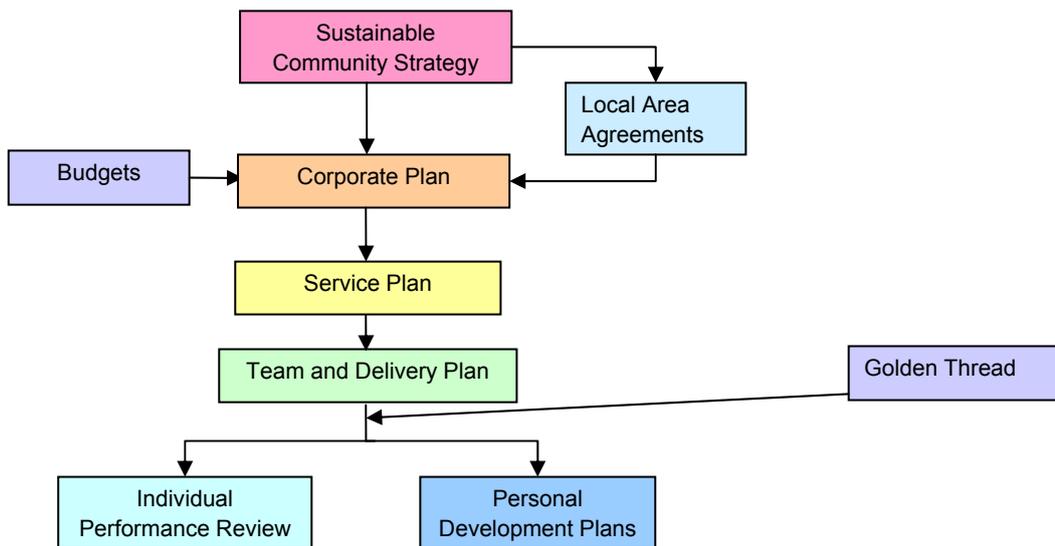


Figure 4.1 – Corporate Plan Flowchart (the 'golden thread')

4.4.5 Action Controls

To control employees' behaviour, the Council has implemented several pre-actions review for revenue and cost centre managers. They have introduced the regular budget reviews with a department finance managers who ensure that managers are in budget. Line managers also review the performance positions of employees who report to them as part of the monthly performance review.

As part of the individual accountability, the Council has implemented a behavioural restraint control for accessing the computer programme for managing finance. Oracle financial system is used to raise purchase orders (PO), process invoices, agree a contract with a preferred supplier and pay for any item. Authorised managers are given the appropriate user ID and passwords to ensure that that only the appropriate employees are given access to this system. Within the system above, the authority level of an individual manager is limited by his seniority within the organisation and financial responsibility. The system has built in separation of duties and the manager who raises a PO cannot also approve it. It can only be approved by his/her line manager. PO can only be raised for an approved supplier with their detail set up on Oracle system by the Shared Financial Services team³.

As part of the procurement rules, managers of grade up to PO4 can only authorise payments of up to £25,000 subject to satisfying all other procedures. Managers of between PO4 and PO9 are authorised to approve payments of £50,000 and SMG5 roles of payments up to £100,000. Any amount above this figures but lower than £250, 000 is approved by the Department Procurement Board. Any amount above this threshold is approved by the Strategic Procurement Board. This delegated authority limits are applied automatically by the system as the HR system and finance systems are linked.

Within the performance management and disciplinary procedures, processes were implemented for handling wilful miss management of the budget and appropriate sanctions were introduced to deter bad employee behaviour.

Employees at the service centres are audited at least once a month and depending on outcome, may be commended, re-trained, and or disciplined. There are other procedures and policies

³ Only the Shared Financial Service team is allowed to set up suppliers on Oracle. This is will only be done by them after the manager has submitted all the appropriate procurement documents.

⁴ Principal officer 4 (PO4) – The upper limit grade of first line managers

⁵ Senior management Grades – Usually top 20 managers

including sickness & absence procedure, and disciplinary procedure that are used as part of the performance management process to manage employee behaviours.

4.4.6 Customer Satisfaction Controls

LBL separates its customer performance measures from other operations measures because they see it as such an important part of the organisation's priorities. As a result all activities relating to service delivery are measured separately and in further detail. The Council has agreed a set of corporate values called FRESH (Fairness, Respect, Excellence, Service and Honest) that relate to delivering service to internal and external customers. LBL also has an agreed customer charter and service promise with employees on the way it will treat its customers and employees. Qualities and competencies in customer service are assessed even at the recruitment stage.

The customer charter states that "Everything they do as a council and as individuals working for the council should be guided by the values. They sum up the type of council they want to be and help their customers know what to expect from them".

The Council also has the 'Lambeth Promise' which is based on the FRESH values and sets out the council's aspiration for excellent customer service. It is a public commitment to residents and outlines what they can expect from employees as individuals, a service and as a council. The Promise makes the following commitment to LBL's residents:

"Lambeth Council is committed to ensuring you receive a high level of service. We will be helpful, open and honest with you and always aim to make a real difference" (Lambeth Council).

LBL has developed detailed employee observation and call monitoring checklist that the council uses to audit employees' behaviour when dealing with residents. Each employee at any of the service centres is audited at least once a month and depending on outcome, may be commended, retrained, and/or disciplined.

4.4.7 Personnel Controls

Every job vacancy advertised by the council has a written job description and person-specification. LBL requires prospective candidates to have some knowledge in financial management, operational and customer service duties, and people management accountabilities. These requirements are thus defined in the person specification and each prospective employee undergoes a rigorous selection process to ensure that he or she meets the criteria in the person specification to successfully deliver the requirement of the job role.

LBL requests at least two reference contacts – one character and one job – from each prospective employee. The council seeks references from the provided contact before an employee starts work. Employees who work in particularly sensitive areas of the council such as those who supervise or work with children and vulnerable adults are given further checks from the Criminal Record Bureau (CRB). This has to be completed before the employee can commence work.

All new employees complete an induction programme consisting of the First Day Induction, Departmental Induction, Corporate Induction and Team Induction. The inductions together with the probationary procedure support employees through their first six months of employment and probation. It also helps managers to ensure that they have appointed the right person for the role.

The organisation has a suite of training programmes covering all areas of skills, career and leadership development. The skills development courses cover areas such as finance, management and leadership, to support employees in areas that they may lack capabilities.

LBL has a clear and agreed (supported by disciplinary procedure) code of conduct. This is discussed with all new employees and enforced by their line managers. This is to ensure that a culture of high performance and acceptable behaviour is implemented across the organisation.

4.4.8 Employee Performance Monitoring

LBL uses a probation programme, monthly one-to-one reviews and biannual appraisal to regularly monitor employee performance.

All new employees undergo a six-month probation programme. During the programme, they are inducted and monitored to ensure that with the appropriate support, they can meet the minimum acceptable performance delivery criteria for the role that they have being employed. As part of this process, the employees meet their line managers at two months intervals to discuss their progress on areas such as: financial management, operational priorities, customer service, and people competencies. If it becomes apparent that there is a mismatch, managers are allowed to terminate the employment within the probation period.

All employees meet their line managers at least once a month to discuss the employees' progress and performance. This also provides an opportunity for the employee to discuss their learning needs and any other cause of control problems that they may have. Employees also meet their line managers between April and May every year for the first of the biannual appraisal reviews. At this meeting, they review performance of the previous year and agree the performance targets for the coming financial year (April to March). This will include financial targets from the budgets, operational responsibilities, customer service expectations and the competencies required for their role. This process is repeated in November where the objectives agreed in April are tracked and reported on in the interim.

4.4.9 Reward and Incentives

The pay and remunerations of LBL is very similar to all other local authorities in England and Wales because pay and reward are agreed at the national level. There is no financial incentive or bonus scheme linked to performance. All employees get a percentage increase (between 1 and 3% average) on their annual salary as agreed between national employers association and the trade unions.

LBL has initiated professional qualification scheme, leadership development programme and FRESH awards to reward high achievers and encourage other employees.

4.4.10 Performance Measurement

The Council has adopted the balanced scorecard (BSC) to measure its performance (refer to Figure 4.2 below for details of the BSC). Key operational performance measures in the balanced scorecard are derived from the corporate plans. These are then linked to the employees' performance measurements through the 'golden thread' – refer to Figure 4.1 above.

LBL's BSC approach comprises of financial management measure which includes looking at financial planning, budget monitoring, and regular review. It also has operational performance measures which are defined by the details of the services to be delivered and what employees specific role is. Other parts of the balanced scorecard is the customer satisfaction measure which looks at customer satisfaction expectations on employees; and innovation through people measure affecting competencies which includes LBL's selection processes and FRESH values.

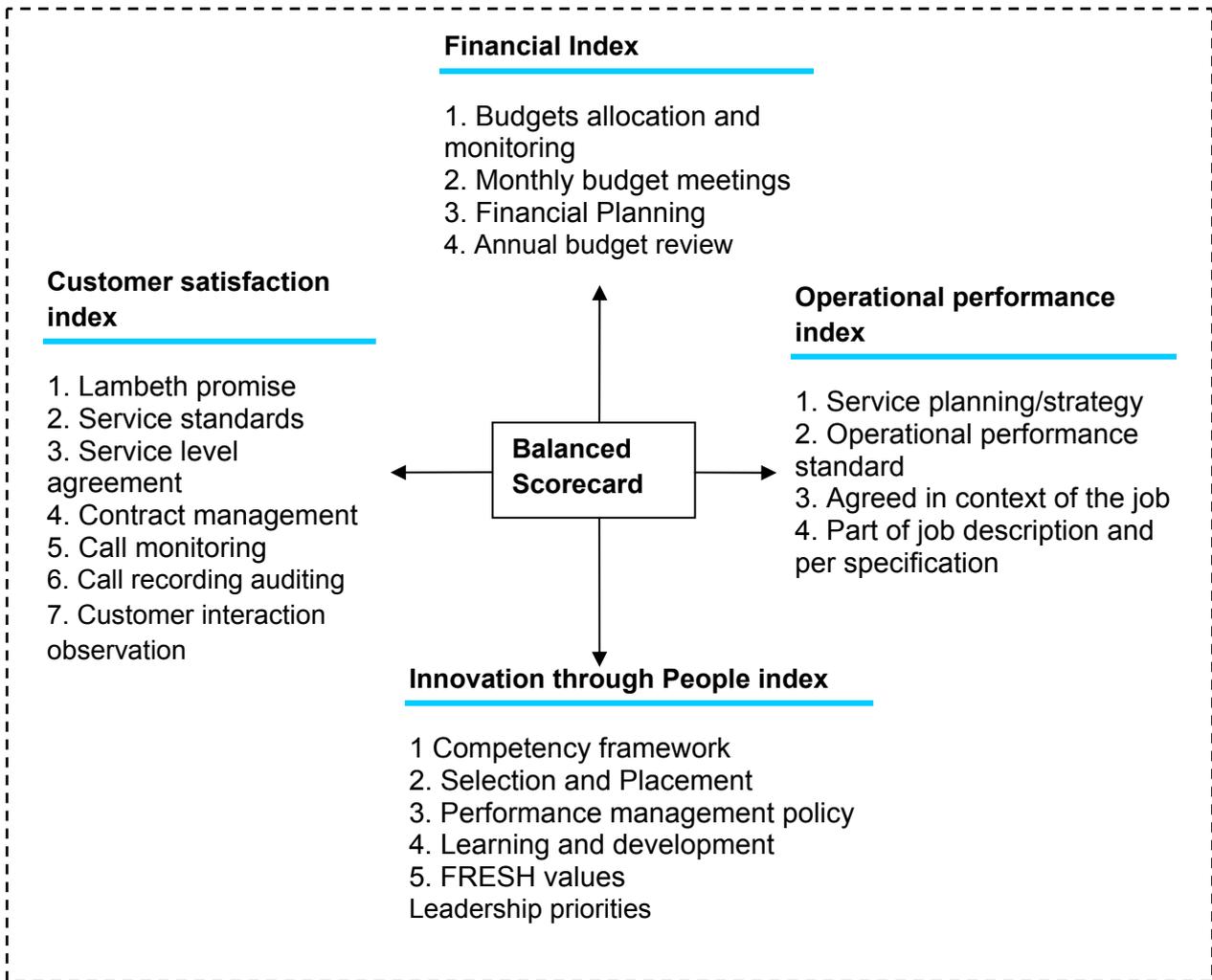


Figure 4.2 – LBL's balanced scorecard

(Source: www.lambeth.gov.uk).

5.0 DISCUSSION

In this chapter, we have used the theoretical framework to analyse the empirical data collected. In doing that, we examined; interpreted; and qualified the results and drew inferences from them (APA Manual, 2010). The discussion has been tailored to concentrate the research objectives and provide answers to the research question.

As previously discussed, the theoretical framework to be used in explaining the impact the AC on LBL is shown below.

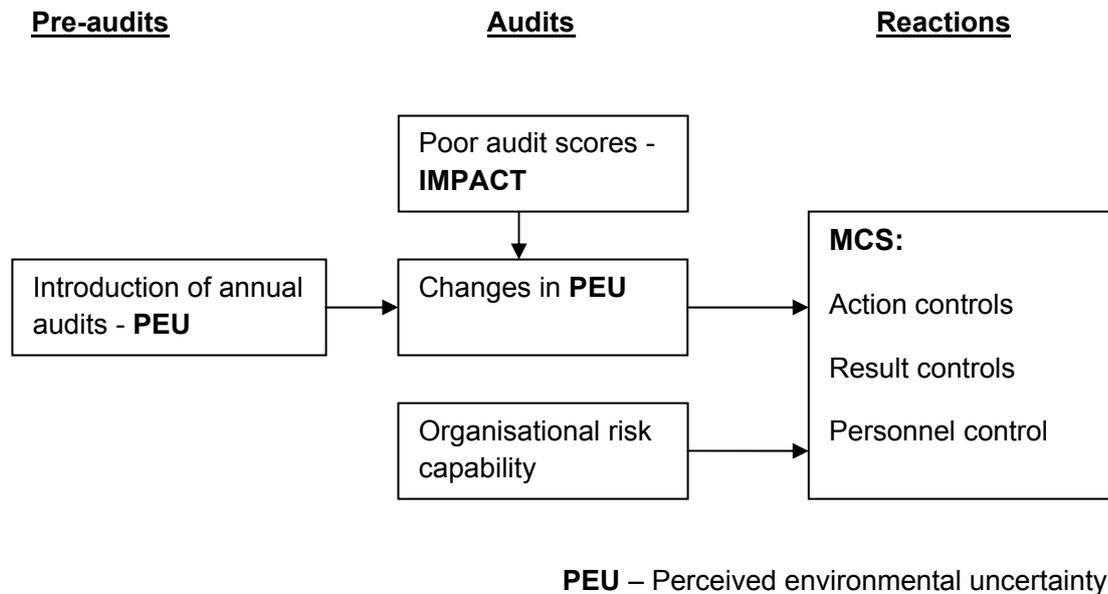


Figure 5.1 – Theoretical model

5.1 Pre-Audits

5.1.1 Introduction of Annual Audits

An audit obtains and evaluates evidence regarding objects of importance, judges the degrees of correspondence between those objects and criteria and communicates the results to interested users (Merchant & van Stede, 2007). Furthermore, audits create value in two primary ways: the audit report adds credibility to the information provided to user groups; and the anticipation of audit will or might take place can have a strong motivating effect on the individuals involved to conform to the standards they think the auditors will use in their evaluation (Merchant & van Stede, 2007). According to Figilo & Kenny, (2009), communicating information about public sector performance via audit reports has the potential to improve stakeholders' monitoring abilities, and the degree to which stakeholders may use their monitoring to effect change; this could improve the performance of service providers.

Audit committees provide critical roles in the audit process which includes overseeing the quality of monitoring mechanisms implemented by an organisation and providing oversight over financial reporting process including the system of internal controls (Barua et al., 2010; Sarens et al., 2009). Legislations such as SOX 2002, European Union (EU) Directive on Statutory Audit and Audit Commission Act 1998 and the Local Government Act 1999 (UK) provide guidelines and enforcing powers for audit committees which testifies the importance of the audit process.

Auditors can serve as the 'eyes and ears' of management in assessing what are happening within the organisation, and they can also share their expertise by providing recommendations for improvement. Where audits are feasible, they can be an important alternative or supplement for other management control mechanisms, such as direct supervision or incentives (Merchant and van Stede, 2007).

5.1.2 Impacts of the Audit Assessments

This section discusses the impacts that the audit assessments have had on LBL. It will answer the first research question "Have the audit scores of the AC influenced MCS at LBL?".

Between 2000 and 2004, LBL scored one star with numerous recommendations for improvements in the areas of financial management, performance management, cultural services, housing, and use of resources. The organisation's responses to the audit results had been patchy and not very well coordinated. Existing documents demonstrate an attempt to plan for the areas identified as weak but, there is little evidence of monitoring and follow through.

The 2005 audit score was also one star with several areas of the assessment criteria that needed to be improved which were stated in the Annual Audit Inspection letter to LBL. The year 2005 represented the first of co-ordinated organisational response to the audit score in any meaningful way. It is worth remembering that this year saw a new local political party come into administration after the local elections. The organisation responded with some changes at the senior management team including the Chief Executive, Director for Policy and Director of HR. The senior team was tasked with improving the situation and a detail improvement plan was drawn.

"In April 2003 the council produced a Recovery Plan. This evolved out of the Government's Comprehensive Performance Assessment (CPA)" (Lambeth Improvement Plan 2005-2008). LBL's improvement plans had been driven by the audit scores (refer to Figure 5.1 below). The Council have sought to improve the overall performance of the authority. As a result of the audit score and the recommendations, several changes were made in LBL's internal controls to improve its performance. These included:

- Tighter performance management;
- Changes on financial planning;
- Changes in capital and revenue budgeting;
- Use of BSC for performance measurement;
- Financial accountability;
- Regular performance review and monitoring.

Figilo & Kenny, (2009), described this scenario with the statement "performance measurement can influence the behaviour of the measured, as well as the overall market responses to the public sector and non-profit organizations being measured".

Drivers for the Improvement Plan

This diagram shows the inputs and outputs for the Improvement Plan in relation to other plans and strategies.

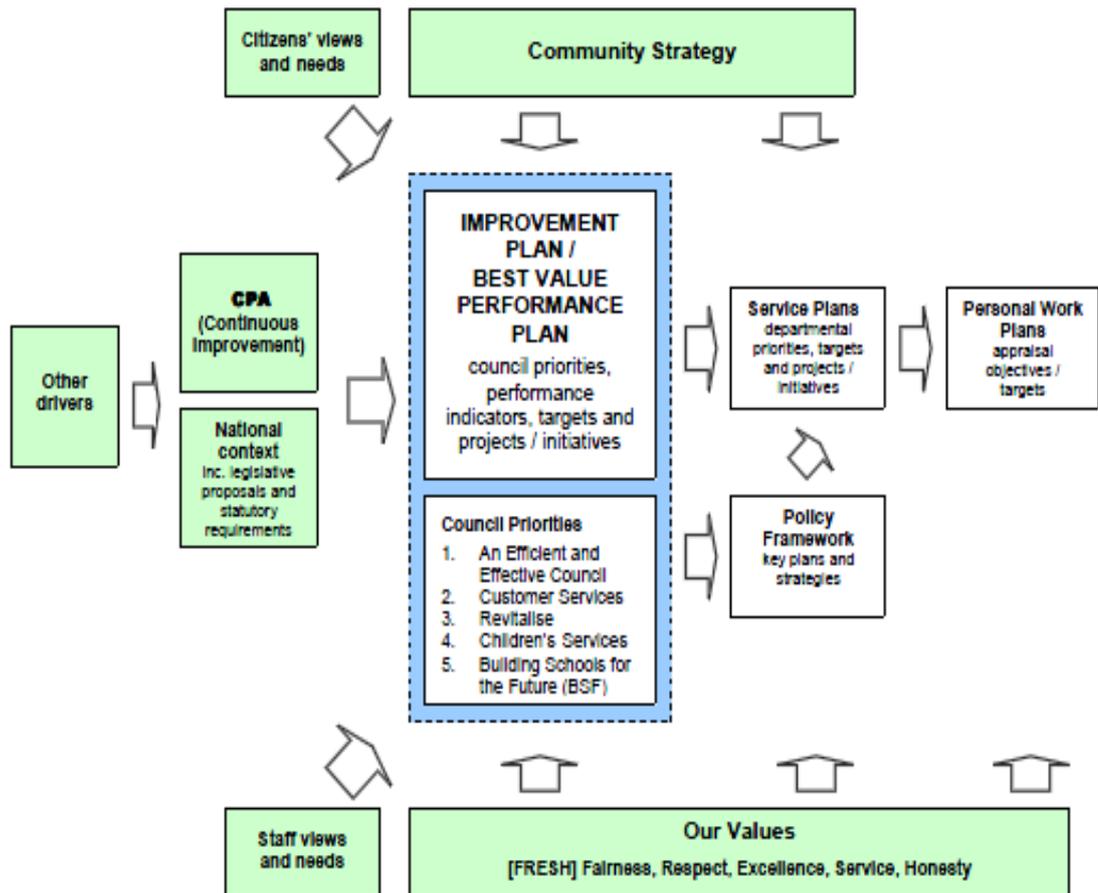


Figure 5.2 – Lambeth Improvement Plan 2005-2008

(Source: Lambeth Council)

The council also improved in its document submission to the AC. When LBL submitted only the documents requested under its statutory responsibility to the Audit commission (between the years 2000 and 2003), the council scored one star when measured on the AC'S CPA Framework. From 2004, the council started making voluntary submissions in addition to its statutory submission (refer to figure 3.2 above). The voluntary submission period coincided with the period of improvement plans. It can be inferred that LBL perceived the voluntary submission as a means of showing the Commission the effort it has put into improvement. The voluntary submission also contributed to the council's demonstration of its successes.

5.2 Audits: - Reason for the changes in MCS

This section will discuss the reasons for the changes to the MCS at LBL to show that it was as a result of the AC. It will also seek to answer the second research question – “Why has the audit scores of the annual audits completed by the AC influenced MCS at LBL?”.

5.2.1 Poor Audit Scores Impact

As indicated in previous discussions, the threat of a council being taken into ‘special measures’ is a considerable source of risk. LBL was fully aware that as part of the AC reports, authorities that continue to underperform could be taken into ‘special measures’. “The repeated poor audit ratings

increased the risk of been taking into special measures, and this threatened their legitimacy and increased their perceived uncertainty level” (Divisional Director – Policy).

The use of interventions are confirmed by Kelly (2003) in the statement “on those exceptional occasions when local authorities failed to comply (with the AC), central government has several means of explicitly enforcing local authorities to meet their obligations: for example, through the threat (and use) of adverse publicity, special measures or actual interventions.

5.2.2 Changes in PEU

LBL changed its MCS not just because the audit scores asked them to change in 2004. The audit scores had been repeating the Councils weaknesses in 2000, 2001, 2002 and 2003 but it was because they came under the threat of special measures as they had more than three consecutive one star rating – which was the threshold – for taking local government organisations into special measures. The improvement undertaken by LBL connotes a response to that threat – a perceived environmental uncertainty. Moreover, with the well known adage “what gets measured gets managed”, LBL developed improvement plans driven by the expectations of the representative of their stakeholder in addition to the Council’s social obligation.

5.2.3 Organisational Risk Capability

Figilo and Kenny (2009) asserts that “stakeholders appear quick to withhold support for organizations with poor measured performance, and may reward organizations with high measured performance”, it can be said that, LBL did not want to find itself in that a ‘special measures’ situation where there will be limited budgets and total central government control.

There may be other drivers of the improvement such as the citizens’ view, national context and staff views. Audits can be extremely valuable tools in management control situations (Merchant & van Stede, 2007) and the primary driver for the MCS changes can be associated with the annual audit score because:

- The activity level of these other stakeholders had not changed significantly;
- The change from CPA to CAA by the AC was to accommodate other drivers such as the national political context.
- The public perception of the authority is also partly driven by reporting of the score and their own experience with the borough.

It is also unlikely that the change in the management control was merely to do with the changes in senior management personnel for two reasons:

- Without these unfavourable results in the first place, these changes would not have happened
- The organisation recruited the new people to help improve its performance score after the annual audit.

On the subject of changes in the dominant political local party, it can be said that the change in MCS cannot wholly be attributed to this change because the improvement plan and the recruitment drive for the new senior management had began before the new administration took office. However, credit must be giving for the continuation of the plan changes after they came into power.

5.3 Reactions: - Changes in Management Controls

This section will outline and discuss the changes that LBL has implemented as a result of the audit scores. It will also seek to answer the last research question – “How has the audit scores of the annual audits completed by the AC influenced the MCS of LBL?”.

Asel (2009) in Figure 2.1 demonstrated that organisations with high perceived uncertainty are more likely to change their MCS; hence the paragraph below will analyse the changes in MCS at LBL. Furthermore, contingency theory on MCS assumes that the design and the application of controls are influenced by the context in which they are applied (Chenhall, 2003).

5.3.1 Developing and Implementing Improvement Plans

From the interview with the Chief Executive, one of the first things he put in place when he got the role was to review the organisation’s infrastructure for supporting performance management and reporting. The new Policy, Performance and Equalities unit was created which provided real time information on performance for business managers. This helped managers understand and determined what was working and not, and what could be done on areas that are not working. As a result of this team’s work, they were able to share the information they had on performance activities across the council with the Audit Commission during the performance assessment. The organisation was able to provide secondary data and sets of report that it had produced to aid decision making and to monitor performance standard without incurring additional cost just for the performance audit.

As stated in the theory section, leaders in public sector are required to demonstrate leadership capabilities in four dimensions: developing the insights necessary for successful change within complex systems; building the cognitive skills to manage effectively in demanding environments; demonstrating the emotional intelligence to motivate their people; and actively building leadership at all levels (Leslie & Canwell, 2010).

5.3.2 Financial Performance Review

As part of the improvement plans and included in the performance management process, managers of budgets met their line managers at the beginning of the financial year and met monthly thereafter to review the budget against the actual spend or cost. This served as useful pre-action review as the managers agreed future spending and reported any exceptions to the departmental Head of Finance. The information gained is fed forward to the head of finance managers meetings and the following year’s budget process.

5.3.3 Results Controls

Through the golden thread (Figure 4.3), employees can literally see the link between every activity they complete and the corporate plan. A significant cause of result control failures, according to Merchant and van de Stede (2007), is lack of congruence. By having this flowchart, all activities at LBL are aligned thereby mitigating the failure as described by Merchant and van de Stede (2007).

Managers of LBL further used the processes described in the improvement plan and ‘golden thread’ to ensure that performance measures agreed for employees are in the best interest of the organisation and congruent with the direction of its strategy. By agreeing these with employees, the organisation ensures that they get buy-in and commitment.

From the feedback obtained from the Audit Commission via audit scores and recommendations, LBL has developed and utilised its capabilities. By making voluntary submissions, LBL put in the extra effort to achieve more than expected. These uses are in line with Grafton et al., (2010), notion that “the two uses of performance measures – feedback and feed forward – serve two distinctly different purposes in supporting strategy implementation and development”.

5.3.4 Action Controls

According to Merchant and van Stede (2007), action controls focuses on the actions of the employees being controlled. By the end of the 2005 audit, the Council had overspent and poorly managed several programmes including a major flagship project called the Clapham Park Project. Project managers had been spending without knowing their budget position limit and no one had monitored their spending. Prior to 2007, there were managers who were responsible for budgets but had never seen any documents on the budgets, what the expectation were or had any point met anyone to review them. Only Divisional Directors received budget information – which was actually being managed by lower level managers. Project managers kept issuing grants, buying items and so forth without knowing their financial status. However, by the end of 2007/2008 financial year, all profit centres, cost centres and revenue centres had been identified and their unit managers trained in budget management and monitoring principles. The identification, training and monitoring exercise implemented by LBL set a precedent for action accountability as per Merchant and van Stede's (2007) notion.

The monthly budget review meetings became excellent pre-action review ensuring that management actions were in line with corporate plans and priorities. It allowed the dissemination of information vertically in the organisation. This further ensured that budget allocations were based on more accurate information. LBL's development of a detailed employee observation and call monitoring checklist as a means of auditing employees behaviour when dealing with residents is similitude to Malmi and Brown (2008) assertion that policies and procedures are bureaucratic approach to specifying the processes and behaviour within an organisation.

5.3.5 Personnel Controls

According to Merchant and van Stede (2007), personnel controls serve three basic purposes: clarifying expectations; encourage self-monitoring by employees; and ensure that employees have the capabilities, resources, and are able to do good job. Further studies by organisation scientist indicate that human capital as a strategic asset can contribute to organisational effectiveness (Carmeli, 2004; Offstein et al., 2005; Bronzini & Piselli, 2009). Additionally, local authorities that possess strategic human capital exhibit a better financial performance (Carmeli, 2004).

As a way of making managers astute in the organisation's finance, LBL introduced a mandatory 'introduction to finance and budget management' training for all managers (www.lambeth.gov.uk). The organisation has also developed e-learning programmes which are available on demand for managers who need to understand anything relating their financial management responsibility. These training programmes are extended to appropriate non-managerial employees with significant budget responsibility. As discussed by Merchant and van Stede (2007), these trainings have positive motivational effects on managers because they give them a greater sense of professionalism. Based on effort-performance (E-P) expectancy factor, Fudge and Schlacter (1999) believe that when these training programs are implemented properly, they can be used to motivate employees.

The induction for new employees provides information on the details of the expectations of their job, workplace health and safety and so forth. The first day induction also completes the administration processes for confirming the employment. The reference check helps the council to ascertain the behaviour and work-attitude of new employees. The Criminal Record Bureau (CRB) checks on new employees are undertaken to comply with legislation. It also serves as safeguarding criteria of the audit.

An employee's performance is rated between 1 and 5 with five being excellent and one been poor. Employees need to achieve 3 or more to be deemed to have met the performance expectation. Line managers undertake regular performance reviews of employees which provides timely measurement and accurate feedback of performance. This is consistent with Merchant and Van de Stede's (2007) argument that for MCS to be effective, the measurement has to accurate, precise and timely.

From the discussion above, it can be said that, the personnel controls in LBL have been implemented to clarify the expectations of both managers and the managed; encourage self-control; and the recruitment process ensures employees have the capabilities to do the work.

5.3.6 Reward and Incentives

The audit results have not influenced employee's financial rewards. However, LBL has attempted to provide some non-financial incentives that are linked to performance. For instance:

- For employees to access the professional qualification scheme, they need to achieve appraisal rating of 3 or above.
- Special leadership development programme have been developed to reward high achievers and develop them for more senior roles.
- There are various awards ceremonies for acknowledging employees who perform above and beyond their normal role.

In the authors' opinion, LBL identified the areas that its employees can be motivated and developed and aligned the rewards and incentives accordingly. This confirms Silean and Williams' (2009), assertion that MCS should be able to identify potential factors to motivate the actor being controlled to remain within a preferred behaviour.

5.3.7 Cultural Controls

Cultural controls encourage mutual monitoring; a powerful form of group pressure on individuals who deviate from group norms and values (Merchant & van Stede, 2007). LBL has implemented cultural controls in a way that, everything they do as a council and as individuals working for the council are guided by the FRESH values. This sums up the type of Council the leaders want it to be and help their customers know what to expect from them. Nieminen & Lehtonen (2008) asserts that socialisation-based control is an important tool in the control portfolio for an organisation in a dynamic environment.

Cultural controls are implemented through codes of conduct, group-based rewards, intra-organisational transfers, physical arrangement and tone at the top (Merchant & van Stede, 2007). In attempt to motivate employees to exhibit the behaviours in the FRESH values, the organisation has implemented the FRESH awards to publicly praise and reward employees who are identified as exemplary in demonstrating these behaviours.

5.3.8 Adoption of BSC

LBL recognised four key areas where performance measures would be set. These were financial, operations, customer service and innovation through people measures hence the adoption of the balanced scorecard.

Financial performance measures indicate whether the company's strategy, implementation, and execution are contributing to bottom-line improvement (Kaplan & Norton, 1992). With regards to the financial performance, LBL has implemented: budgets allocation and monitoring; monthly budget meetings; financial planning; and annual budget review.

The balanced scorecard demands that managers translate their general mission statement on customer service into specific measures that reflect the factors that really matter to customers (Kaplan & Norton, 1992). According to Kaplan and Norton (1992), customers' concerns tend to fall into four categories: time, quality, performance and service, and cost. In order to improve customer perspective, LBL created its customer satisfaction index which includes: Lambeth promise; service standards; service level agreement; contract management; call monitoring; call recording auditing; and customer interaction observation.

In terms of internal perspective, LBL has developed an operational performance index to help achieve its customer satisfaction index. This index includes: service planning and strategy; operational performance standard; agreed in context of the job; and part of job description and per specification. This relates to Kaplan and Norton (1992) assertion that, the internal measures for the balanced scorecard should stem from the business processes that have the greatest impact on customer satisfaction-factors that affect cycle time, quality, employee skills, and productivity, for example.

To develop innovation and learning perspective as per Kaplan and Norton (1992), LBL has developed 'innovation through people' index which includes: competency framework; selection and placement; performance management policy; learning and development; FRESH values; and leadership priorities

The use of BSC approach in performance management was congruent to the need to balance all the interests of the divergent stakeholders in the MCS. It balanced multiple and competing stakeholders' interest (Kaplan & Norton, 1996; Sundin et al., 2009). This was recognition of the Audit Commission as a legitimate stakeholder.

6.0 CONCLUSION AND IMPLICATIONS

This chapter draws conclusions to the discussion of the research. The conclusions were based on the findings and analysis of the collected data. The chapter ends with the suggestions for further research.

The purpose of the study was to examine the impacts of the work of the Audit Commission – through its annual audit and audit scores – on the MCSs of LBL. The research focussed on three research questions:

- Have the audit scores of the Audit Commission influenced MCSs at LBL?
- How has the audit scores of the annual audits completed by the Audit commission influenced the MCS of LBL?
- Why has the audit scores of the annual audits completed by the Audit Commission influenced MCS at LBL?

The theoretical framework of this study focused on three bodies of literature: the work of the Audit Commission, auditing and audits scores, and MCSs.

6.1 Conclusion

LBL had repeated poor (one star) audit score from 2000 and the fourth consecutive one star rating in 2004 represented a significantly new threat – special measures. Managers were motivated to change the MCS because the threat of special measures was a source of uncertainty and risk for them and their jobs. This reaction is congruent with the findings of Asel (2009) which demonstrated that organisations with high perceived uncertainty are more likely to change their MCS. Also considering that the organisation received one star ratings in from 2000 to 2004 but made concerted efforts in 2004 to change their MCS, it can be inferred that their actions was not just a reaction to the audit or its recommendations, but, the increase in their perceived level of uncertainty because of the possibility of special measures.

Figure 5.1 above, clearly indicated that one of the drivers for the improvement plan was the CPA from the AC. The ‘how’ part of the research questions have been answered mostly by the discussion of the changes in MCS. Through the audit scores and audit recommendation, LBL changed its performance management system. The Council also made changes in management controls to improve in the areas identified as weak in the audit assessment. The areas included:

- Performance management;
- Financial controls and accountability;
- Planning and budgeting;
- Personnel controls;
- Operational planning and effectiveness;
- Change of some senior management personnel.

LBL’s performance measurement system imitates a balanced scorecard approach that comprises of financial management measure looking at financial planning, budget monitoring, and regular review. It also has operational performance measures which are defined by the details of the services to be delivered, and people index showing employees specific roles. This balance scorecard summarises all the improvement plans and actions it has either implemented or will be

implementing. The scorecard puts strategy and vision at the centre (Kaplan & Norton, 1992); it then uses controls to achieve the organisations objectives.

To conclude the discussion on the question of whether the audit scores have made an impact on MCS at LBL, the production of an improvement plan to serve as an improvement framework is an intervention requirement as per Walshe et.al's (2009) description. There is also evidence that the inspection and re-inspection by the AC (over the study period) and continuous publication of the council as failing (between 2001 and 2004) caused changes at LBL. Therefore three interventions from Walshe et.al (2009) list can be seen to be working at LBL. From the empirical data collected and the discussion in chapters 4 and 5 respectively, it is evident that intervention by the use of threat of sanctions can make an impact on a public sector organisation. In the case of local authorities, the threat of sanctions was 'being taken into special measures' and at LBL, the increase in their perceived level of uncertainty because of the possibility of special measures forced them to make changes. In 2005, the organisation responded to the Commission's recommendation with some changes at the senior management team including the Chief Executive, Director for Policy and Director of HR. This can also be described as an intervention from the government.

Malmi and Brown (2008) argue that multiple stakeholder interests are incorporated in an MCS and this research evidence shows that a non-traditional stakeholder's interests have influenced MCS to a very high degree. The broad conclusion from the study is that, as presented by Malmi and Brown (2008), the AC – a stakeholder – has influenced the MCS of LBL. The reactions at LBL are congruent with the findings of Asel (2009) – adopted as this study's theoretical model – which demonstrated that organisations with high perceived uncertainty are more likely to change their MCS.

6.2 Implications of Study

Auditing is a systematic process of objectively obtaining and evaluating the accounts or financial records of a governmental, business, or other entity based on established criteria (Encyclopaedia of Business). From the changes in financial control, accountability and reviews at LBL, there is evidence to support the EU Directive that audit committees and an effective internal control system help to minimise financial, operational and compliance risks, and enhance the quality of financial reporting (European Parliament and Council of the European Union, 2006).

Managers implement MCS to ensure that the behaviours and decisions of their employees are consistent with the organisation's objective and strategies (Merchant & van Stede, 2007; Otley & Berry, 1980; and Chenhall, 2003). The empirical data and discussion in this study confirms Merchant and van Stede (2007) assertion that well designed management controls increase the probability that an organisation can achieve its objectives.

As indicated in previous discussions, the Audit Commission's duties include: serving as an independent watchdog, providing information on the quality of public services; serving as a driving force for improvement in public services; providing practical recommendation and spreading best practice; and serving as an independent auditor, to ensure that public money is properly spent (www.audit-commission.gov.uk). From the study, the Commission can be seen as playing these roles diligently.

From the empirical data collected and the discussion in chapters 4 and 5 respectively, the study have highlighted:

- The effects that the work of AC have had on LBL's MCSs;
- The changes that have been made at LBL in terms of MCSs due to the audit scores;
- Provided possible explanation to the reaction to changes in MCS.

The research has further provided evidence to support government intervention. The evidence from this research shows that the following government interventions have been used at LBL:

- Public “naming and shaming”;
- Inspection and re-inspection;
- Requirement for PSOs to develop a plan for improvement;
- Top management replacement;
- Threat of sanctions;
- Merger, takeover or closure.

The above interventions have greatly impacted on the both the quality of service provided and general performance of the council. After LBL responded to these interventions, there have been continuous improvements by the council scoring three stars from 2006. Therefore, it can be concluded that these interventions can sustain improvements.

The authors would like to draw the reader’s attention to the fact that the Department of Communities and Local Government (DCLG) is currently in a consultation process with the intention of outsourcing the work of the AC with effect from 2012/13 audits (www.audit-commission.gov.uk). DCLG aims to externalise the work of the in-house audit practice which means the work AC will eventual be disbanded. The AC has therefore been asked to design a procurement process that allows a range of firms to bid, including the possibility of an in-house bid, which could form the basis of a new and distinctive provider in the market (www.audit-commission.gov.uk).

6.3 Suggestions for Further Research

This study opens a number of opportunities for future research. From the research objectives, we could not study LBL’s MCS as a package and there was little information suggesting how the various controls interact and relate. This therefore opens a challenge for further research.

The study looked at the impact of one stakeholder – central government represented by the Audit Commission – on MCS at the Council. This brings up the question of ‘are there other stakeholders impacting on MCS at LBL, and if so, how have they influenced improvements?’.

From the MCSs discussed, there were major changes regarding employees. It will therefore be interesting to know how trade unions have accepted and impacted on the creation and implementation of MCS. Lastly, the role of leadership at the Council during this period of improvement can also be investigated.

REFERENCES

- Abernethy, M. A., & Brownell, P. (1997). Management Control System in research and development organisations: the role of accounting, behaviour and personnel control. *Accounting, Organisation and Society*, Vol. 22, No. 3/4, p. 233-248.
- About London Borough of Lambeth. Retrieved from: www.lambeth.gov.uk/Services/AboutLambeth. [Accessed on 16th April, 2011]
- Acquah-Hagan, D. (2010). The impact of Audit Commission (through the regular audit & audit scores) on the management control systems (MCS) of London Borough of Lambeth (LBL). *Assignment in FE 2501*. School of Management, Blekinge Institute of Technology, Sweden.
- Algozzine, B., Spooner, F., & Karvonen, M. (2002). Preparing special education research articles in APA style. *Remedial and Special Education*, Vol. 23, No. 1, p. 23-30.
- American Psychological Association (2010). Publication Manual. 6th edn., USA.
- Arnaboldi, M., & Azzone, G. (2010). Constructing performance measurement in the public sector. *Critical Perspectives on Accounting*, Vol. 21, p. 266-282.
- Asel, J. A. (2009), EDAMBA Summer Academy WU Vienna 11.
- Information about Audit Commission. Retrieved from: <http://www.audit-commission.gov.uk/aboutus/Pages/default.aspx>. [Accessed on the 18th September, 2010].
- Auditing. Encyclopaedia for Business, 2nd ed. Retrieved from: www.referenceforbusiness.com/encyclopedia/Assem-Braz/Auditing.html#ixzz1KP2uWPhD. [Accessed on 24th April, 2011].
- Barua, A., Rama, D.V & Sharma, V. (2010). Audit committee characteristics and investment in internal auditing. *Journal of Account and Public Policy*, Vol. 29, p. 503-513.
- Bronson, S.N., Carcello, J.V., Hollingsworth, C.W., & Neal, T.L (2009). Are fully independent audit committees really necessary?. *Journal of Account, Public Policy*, 28, p. 265-280.
- Bronzini, R., & Piselli, P. (2009). Determinants of long-run regional productivity with geographical spillovers: The role of R&D, human capital and public infrastructure. *Regional Science and Urban Economics*, 39, p. 187-199.
- Carmeli, A. (2004). Strategic human capital and the performance of public sector organizations. *Scandinavia Journal of Management*, Vol. 20, p. 375-392.
- Chenhall, R.H., & Chapman, C.S. (2006). Theorising and Testing Fit in Contingency Research on Management Control Systems. *Methodological Issues in Accounting Research – Theories, methods and issues*, ed. Z.
- Chenhall, R.H., (2003). Management control systems design within its organisational context: findings from contingency-based research and directions for the future. *Accounting, Organisations and Society*, Vol. 28, p. 127-168.
- Data Management and Analysis Group (2007), Greater London Authority. [Accessed on the 01 October 2010, [Demography Update October 2007](#)]
- Directive 2006/43/EC of the European Parliament and Council of the European Union, 2006. Available from: www.eur-

lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:157:0087:0087:EN:PDF.
[Accessed on 17th April, 2011].

- Figilo, D.N., & Kenny, L.W. (2009). Public sector performance measurement and stakeholder support. *Journal of Public Economics*, 93, p. 1069-1077.
- Fudge, R. S., & Schlacter, J.L (1999), Motivating employees to act ethically: an expectancy theory approach. *Journal of Ethics*, Vol. 18, p. 295-304.
- Grafton, J., Lillis, A.M., & Widener, S.k. (2010). The role of performance measurement and evaluation in building organisational capabilities and performance. *Accounting, Organisation and Society*, Vol. 35, p. 689-706.
- Jensen, M. (2001) Value maximisation, shareholder theory, and the corporate objective function. *European Financial Management*, Vol. 7 (3), p. 297-317.
- Kaplan, R. S., & Norton, D. P., (1996). The balanced scorecard: Translating strategy into action. *Boston, MA: Harvard Business School Press*.
- Kaplan, R., & Norton, D (1992). The Balanced Scorecard - Measures That Drive Performance'. *Harvard Business Review*, Vol. 70, no. 1, p. 71-79.
- Kelly, J. (2003). The Audit Commission: Guiding, Steering and Regulating Elected Local Government. *Public Administration*, Vol. 83, No.3, p. 459-476.
- Kelly, J. (2006). Central Regulation of English Local Authorities: an example of meta-governance. *Public Administration*, Vol. 84, No.3, p. 603-621.
- Krippendorff, K. (2004). *Content Analysis: An Introduction to Its Methodology*. 2nd ed, Thousand Oaks, CA: Sage.
- Leslie, K., & Canwell, A. (2010). Leadership at all levels: Leading public sector organisations in an age of austerity. *European Management Journal*, Vol. 28, p. 297-305.
- Local government league table. Available online at: <http://www.idea.gov.uk/idk/core/page.do?pagelId=1115925>. [Accessed on 10th July, 2011].
- Merchant, K.A., & Van der Steede, W.A. (2007). *Management Control Systems – Performance, Measurement, Evaluation and Incentives*. 2nd ed., Essex: Prentice Hall
- Merchant, K.A. (1985). *Control in business organisations*. MA: Harvard Graduate School of Business.
- Malmi, T., & Brown, D.A. (2008). Management control systems as a package – Opportunities, challenges and research directions. *Management Accounting Research*, 19, p. 287-300.
- Malmi, T., & Granlund, M. (2009) In search of management accounting theory. *European Accounting Review*, 18(3), p. 597-620.
- Munro, E. (2004). The impact of audits on social work practice. London, LSE online research. Available online at <http://eprints.lse.ac.uk/archive/00000523>. [Accessed on 23rd July 2011]
- Neuendorf, K A., (2002). *The Content Analysis Guidebook Online*: <http://academic.csuohio.edu/kneuendorf/content/> [Accessed on 18th September 2010].

- Nieminen, A., & Lehtonen, M. (2008) Organisational control in programme teams: An empirical study in change programme context. *International Journal of Project Management*, Vol. 26, p. 63-72.
- Nørreklit, H. (2003), The Balanced Scorecard: what is the score? A rhetorical analysis of the Balanced Scorecard. *Accounting, Organizations and Society*, Vol. 28, Issue 6, p. 591-619.
- Otley, D. T. (1980). The contingency theory of management accounting: achievements and prognosis. *Accounting, Organizations and Society*, Vol. 5, p. 413–428.
- Otley, D., & Berry, A., (1980). Control, organisations and accounting. *Accounting, Organizations and Society*, Vol. 5, No.2, p. 231–244.
- Offstein, E.H., Gynawali, D.R., & Cobb, A.T. (2005). Strategic human resource perspective of firm competitive behaviour. *Human Resource Management Review*, 15, p. 305-318.
- Parker, L., & Lewis, N. (1995). Classical management control in contemporary management and accounting: the persistence of Taylor and Fayols world. *Accounting, Business and Financial History*, Vol. 5, 2, p. 211.
- Phillips, R. (2003). Stakeholder Theory and Organisational Ethics. San Francisco, Berrett-Koehler Publishers, Inc.
- Smieliauskas, W., Craig, R., & Amernic, J. (2010). Auditing, Reasoning Systems, Reporting Frameworks, and Accounting Policy Risk: A Response to Alexander. *ABACUS – Journal of Accounting, Finance and Business Studies*, Vol. 46, No. 4, p. 455-463.
- Sarbanes-Oxley Act 2002. Available from: www.fl1.findlaw.com/news.findlaw.com/cnn/docs/gwbush/sarbanesoxley072302.pdf. [Accessed on 23rd April, 2011].
- Sarens, G., Ignace De Beelde, & Everaert, P. (2009). Internal audit: A comfort provider to the audit committee. *The British Accounting Review*, Vol. 41, p. 90-106.
- Saunders, M., Lewis, P., & Thornhill, A. (2003), Research methods for business students, 3rd ed. London, Prentice Hall.
- Silaen, P., & Williams, R. (2009). Management control systems: a model for R&D units. *Accounting Research Journal*, Vol. 22, No. 3, p. 262-274.
- Sundin, H., Brown, D., & Booth, P. (2010). Management Control Systems in a Multi-Stakeholder Environment: A study of stakeholder salience. *Commerce Research paper series*, No. 04 – 6.
- Tilling, M.V., & Tilt, C.A., (2010). The edge of legitimacy, Voluntary social and environmental reporting in Rothmans' (1956 -1999 annual reports). *Account, Auditing and Accountability Journal*, Vol. 23 No. 1, p. 55-81.
- Talja, S. (1999), Analyzing Qualitative Interview Data: The Discourse Analytic Method, University of Tampere, Finland.
- Van de Walle, S., & Bovaird, T. (2007). Making better use of information to drive improvement in local public services; A Report for the Audit Commission. Available online at: epapers.bham.ac.uk/33/1/INLOGOV_informationuse_final.PDF. [Accessed on 10th July, 2011].

- Walshe, K., Harvey, G., Skelcher, C., & Jas, P. (2009). Could do better? – knowledge, learning and performance improvement in public services. Available online at: <http://www.inlogov.bham.ac.uk/research/performance.shtml>. [Accessed on 10th July, 2011].
- Yin, R.K. (2008), Case Study Research: Design and Methods. Sage Publications, Thousand Oaks.
- Zhang, Y., Zhou, Y. & Zhou, N. (2007). Audit committee quality, auditor independence, and internal control weaknesses. *Journal of Accounting and Public Policy*, 26, p. 300–327.

Other printed references sourced from LBL

Annual Audit and Inspection Letter 2002

Annual Audit and Inspection Letter 2003

Annual Audit and Inspection Letter 2004

Annual Audit and Inspection Letter 2005

Annual Audit and Inspection Letter 2006

Annual Audit and Inspection Letter 2007

Annual Audit and Inspection Letter 2008

Annual Audit and Inspection Letter 2009

Revenue & Capital Budget 2008/09 to 2012/13

Corporate Plan 2006–2010

Corporate Plan 2008–2011

Report in the Public Interest London Borough of Lambeth Audit 2006/07 and 2007/08 - 22 September 2010

Lambeth Improvement Plan 2005-2008, Ambition into Action

People management policies and procedure

Lambeth Council - Code of conducts

ICT access and acceptable usage policy

APPENDICES

Appendix A: Interview Questions Guide

Interview with the Chief Executive Officer (CEO) of LBL

Aim: to provide a more detailed review of the audits, specifically concerning reporting procedures, performance target setting and evaluation, implications from the audits.

- A) Background of the respondent
 - i. Name:
 - ii. Briefly describe your role and responsibilities at LBL
- B) Previous experience in the organisation
 - i. How long have you worked for the company?
 - ii. Briefly describe your past involvement with LBL.
 - iii. In your opinion, what are the changes in the current performance management procedures?
- C) Auditing at LBL
 - i. How does the Audit Commission conduct it work at LBL?
 - ii. What are the statutory requirements for documentation, procedures and processes during the audit process?
 - iii. Are these requirements initiated internally or externally?
 - iv. Briefly describe how an audit has been conducted by the Audit Commission in the past years
- D) Evaluation of audit scores
 - i. How is the audit scores evaluated?
 - ii. What are the outcomes of the evaluation?
- E) Recommendation from the Audit Commission's report
 - i. How does LBL adopt and implement the recommendations of the audit report?
 - ii. Which improvement or action plans have been implemented in the previous years?
 - iii. Who is responsible for the design and implementation of improvement or action plans?
 - iv. In your opinion, what has been the single most obvious internal change due to the annual audits? What other factors are important in this respect?
- F) Impacts of the audit process on management controls
 - i. In your opinion, has the audit scores impacted on the councils' management controls?
 - ii. What are the changes that have been made to management controls due to the audit scores?

- iii. Have there been any changes in the company's formal MCS structures?
 - iv. Have there been changes in employee behaviour due to the audit process?
- F) Organisational culture
- i. What are the main characteristic of the company when it comes to internal culture?
 - ii. How is the internal culture aligned to the corporate vision and goals?
 - iii. How does the organisation communicate its corporate vision and goals to the employees?
 - iv. Are employees aware of corporate visions and goals?
 - v. What incentive systems (rewards) are used to gain employee commitment?

Interview with the Chief Financial Officer (CFO)

Aim: to obtain overall information about changes made in financial management as a result of the audits.

- A) Background of the respondent
- i. Name:
 - ii. Briefly describe your role and responsibilities at LBL
- B) Previous experience in the organisation
- i. How long have you worked for the company?
 - ii. Briefly describe your past involvement with LBL.
 - iii. In your opinion, what are the changes in the current performance management procedures?
 - iv. How has financial management procedures changed since you have been in the role?
- C) Current financial management
- i. How is LBL's finance managed in view of the current austerity measures implemented by central government?
 - ii. How are controlling functions assembled?
- D) Recommendation from the Audit Commission's report
- i. How does LBL adopt and implement financial recommendations of the audit report?
 - ii. In your opinion, what has been the single most obvious internal change due to the annual audits? What other factors are important in this respect?
- E) Impacts of the audit process on management controls
- i. In your opinion, has the audit scores impacted on LBL's financial controls?
 - ii. Which changes have been made to LBL's financial reporting in the past years?

- iii. What are the changes in parameters, legitimisation, time pressure, result orientation or information flows due to the audit scores?

Interview with the Divisional Director - Human Resources (HR)

Aim: to gain more knowledge regarding the recruitment process, employee alignment and overall company values, implications from the annual audits.

- A) Background of the respondent
 - i. Name:
 - ii. Briefly describe your role and responsibilities at LBL
- B) Previous experience in the organisation
 - i. How long have you worked for the company?
 - ii. Briefly describe your past involvement with LBL.
- C) Recruitment procedures
 - i. How are employees recruited at LBL?
 - ii. What are the changes (if any) in the current HR management procedures?
 - iii. What criteria do you use as evaluation of aspiring employee: factual knowledge, personality etc?
 - iv. Do they differ depending on position, if so: in what way?
 - v. How are new employees inducted into the company? Are there any formal introduction schemes?
- D) Career development
 - i. How do you ensure continuous enhancement of skills or individual competence development?
 - ii. How do employees develop their careers? Are there any fixed numbers e.g. education hours per employee per year or similar?
- E) Employee evaluation
 - i. How are personnel evaluated?
 - ii. What are the targets and evaluation procedures used? and by whom and how often?
 - iii. How do targets for the evaluation process align with corporate vision and goals?
 - iv. In your opinion, how does the evaluation impact on employee behaviour?
- F) Organisational culture
 - i. What are the main characteristic of the company when it comes to internal culture?
 - ii. How is the internal culture aligned to the corporate vision and goals?
 - iii. How does the organisation communicate its corporate vision and goals to the employees?

- iv. Are employees aware of corporate visions and goals?
 - v. What incentive systems (rewards) are used to gain employee commitment?
 - vi. In your view, what is the single most important feature for a company in order to promote innovation? What other factors are important in this respect?
- G) Impacts of the audit process on management controls
- i. Which changes have been made to LBL's HR management in the past years due to the audit scores?
 - ii. In your opinion, has the audit scores impacted on employees' behaviour?
 - iii. In your opinion, what has been the single most obvious internal change due to the annual audits? What other factors are important in this respect?

Interview with the Chief Internal Auditor

Aim: to obtain overall information about internal auditing processes and how this is related to the external audits.

- A) Background of the respondent
- i. Name:
 - ii. Briefly describe your role and responsibilities at LBL
- B) Previous experience in the organisation
- i. How long have you worked for the company?
 - ii. Briefly describe your past involvement with LBL.
 - iii. In your opinion, what are the changes in the current performance management procedures?
 - iv. How has auditing procedures evolved since you have been in the role?
- C) Internal audits
- i. How does the internal audit team conduct it work at LBL?
 - ii. What are the statutory requirements for documentation, procedures and processes during the audit process?
 - iii. How does the internal auditing complement the work of the Audit Commission?
 - iv. How has management procedures changed over as a result of the activities of the internal audit team?
- D) Recommendation from the Audit Commission's report
- i. How does LBL adopt and implement financial recommendations of the audit report?
 - ii. In your opinion, what has been the single most obvious internal change due to the annual audits? What other factors are important in this respect?

- E) Impacts of the audit process on management controls
- i. In your opinion, has the audit scores impacted on LBL's financial controls?
 - ii. Which changes have been made to LBL's financial reporting in the past years?
 - iii. What are the changes in parameters, legitimisation, time pressure, result orientation or information flows due to the audit scores?

Follow up interview/confirmatory interviews questions with the Divisional Directors responsible for HR and Policy

- i. What changes do you see in the way the council manages performance of employees?
- ii. What impact has the annual audit from the audit commission had in the way people are managed to deliver organisational results?
- iii. Can you provide me with an example of a changed in a policy, procedure, or expectation that has arisen as direct result of the annual audit?
- iv. What trade-offs were required between the Audit Commission requirement and other stakeholders in this instance?
- v. Has recommendations from the Audit Commission negatively impacted on your work? If yes, how?
- vi. In your opinion, why has the audit scores of the annual audits completed by the Audit Commission influenced management controls at LBL?

Appendix B: Summary of transcripts from the Interviews

Interview with the Chief Executive Officer (CEO) of LBL

Aim: to provide a more detailed review of the audits, specifically concerning reporting procedures, performance target setting and evaluation, implications from the audits.

A) Background of the respondent

i. Name:

Derrick Anderson

ii. Briefly describe your role and responsibilities at LBL.

As the head of paid staff, I am ultimately responsible to elected members and the cabinet for the delivery of over 1000 council services including over 700 statutory services. In this regard, I have responsibility for service quality and overall performance. I work with elected members to implement their policies and political manifesto commitment.

B) Previous experience in the organisation

i. How long have you worked for the company?

I have been at Lambeth since 2006 as the Chief Executive

ii. Briefly describe your past involvement with LBL.

Before Lambeth, I worked as the Chief Executive of Wolverhampton Council for ten years. My involvement with Lambeth was purely at colleague level with my fellow chief executive then at Lambeth, Faith.

iii. In your opinion, what are the changes in the current performance management procedures?

Based on your introduction, the changes that can be attributed to national audit scores are many and varied. However, our principal aims for these improvements were three: (1) Improve services for residents; (2) Improve the reputation of the council; and (3) To increase efficiency and cost savings.

Over the years, we have improved the financial accountability of the council, managing our services within the agreed budget. Looking at the history of the Borough with continual over-spending and waste, this has been a significant achievement. We have done this through prudent budget management, stringent individual performance management and financial accountability.

We have improved performance management across the entire council looking at organisational performance through the performance management framework and individual performance through the balance score card and performance appraisal.

We have worked closely with the community and other stakeholders and include the audit commissions to implement their recommendations for improvement for residents

C) Auditing at LBL

i. How does the Audit Commission conduct its work at LBL?

The Audit Commission worked with Lambeth through the framework agreed under the legislation that set up the commission. The procedure is simple: the audit

commission provide a time table of audit activities for the entire year, the documents they would like to review and the number and role level of people they would like to interview. These are then provided to them on the dates as set out in the calendar. Please refer to the audit manual

- ii. What are the statutory requirements for documentation, procedures and processes during the audit process?

Please refer to the audit manual for the procedure and process. However, the documentation required changes depending on the Audit Commission. However, the common documents are the financial statements, annual people management reports, projects updates reports, CPA self audit reports, annual appraisal report, annual workforce development reports and others

- iii. Are these requirements initiated internally or externally?

These reports are asked for by the Audit Commission under their statutory powers given to them under the law. However, the council can and do provide other information that we deem to contribute the demonstration of our performance and the improvement achieved compared to improvement targets.

- iv. Briefly describe how an audit has been conducted by the Audit Commission in the past years

We follow the procedure set out within the legislation and as described above

D) Evaluation of audit scores

- i. How is the audit scores evaluated?

On completion of every audit, the senior management team and performance team review the audit findings, the score and its recommendations to identify areas that we agree or disagree. We look at areas that we challenge the outcome and where an agreement is made, we seek to follow the recommendations of the audit commission. In any condition, the recommendations of Audit Commission is final and we seek to recommend their findings

- ii. What are the outcomes of the evaluation?

Improvement plan

E) Recommendation from the Audit Commission's report

- i. How does LBL adopt and implement the recommendations of the audit report?

The recommendation lists high level outcomes that are expected to achievement satisfactory performance. We then provide our strategy for achievement these outcomes which then becomes our improvement plan

- ii. Which improvement or action plans have been implemented in the previous years?

These are too numerous to list individually but I have listed some above regarding financial management. Others include improvement achievement for ethnic minority children, street cleaning, council tax bills and others numerous efficiency targets

- iii. Who is responsible for the design and implementation of improvement or action plans?

The Performance and Policy team, with contribution from all service departments whose service requires improvement

- iv. In your opinion, what has been the single most obvious internal change due to the annual audits? What other factors are important in this respect?

Performance and quality management system.

We have improved financial management, audits scores, services all because performance systems are in place to monitor and provide real time data that support managers in achieve the council's outcomes.

F) Impacts of the audit process on management controls

- i. In your opinion, has the audit scores impacted on the councils' management controls?

The performance management process looks at everything that an individual is responsible for to ensure that they are appropriate checks and balances in place. As an example, in procurement items cannot be authorised by the same person who ordered them. This allows a second check to be introduced into the system. This can be frustrating at time because of the delays but helps us reduce cost and waste through theft

- ii. What are the changes that have been made to management controls due to the audit scores?

See above

- iii. Have there been any changes in the company's formal MCS structures?

A look at our performance and quality management framework indicate a substantial change in our approach to managing for performance. We have looked at ways to balance controls and speed for efficiency and effectiveness

- iv. Have there been changes in employee behaviour due to the audit process?

We have achieved all these outcomes as a result of every employee pulling their weight in this new direction. They have made it happen and although it has not been easy, the employee behaviours support our ambition and aim to improve performance and audit scores.

F) Organisational culture

- i. What are the main characteristic of the company when it comes to internal culture?

We have done significant work to make it one that supports high achievement and standards. Colleagues now provide the checks on each other. There are areas of improvement in this regards but we continue to make great strides

- ii. How is the internal culture aligned to the corporate vision and goals?

- iii. How does the organisation communicate its corporate vision and goals to the employees?

Induction, Lambeth life magazine, team brief, performance digest, annual service plans, leadership network, management interactions through one to one and regular performance meetings, chief executive question time and so forth

- iv. Are employees aware of corporate visions and goals?

Our last audit score showed that more 60% felt they understand the goals and more than 80% are aware of it. This figure is continually improvement as the staff survey

showed but we will not stop till we achieve 99% awareness which is way beyond the audit requirement.

- v. What incentive systems (rewards) are used to gain employee commitment?

As a local government, we are bound by a shared reward system agreed centrally. This include wages, regular appraisal with development plans and development activities, final salary pension scheme, and host of others

Interview with the Chief Financial Officer (CFO)

Aim: to obtain overall information about changes made in financial management as a result of the audits.

A) Background of the respondent

- i. Name: Mike Suarez
- ii. Briefly describe your role and responsibilities at LBL
Responsible to the chief executive for financial management for the council

B) Previous experience in the organisation

- i. How long have you worked for the company?
10 years
- ii. Briefly describe your past involvement with LBL.
As the finance director
- iii. In your opinion, what are the changes in the current performance management procedures?
Individual accountability has become key
- iv. How has financial management procedures changed since you have been in the role?
We have integrated financial management procedure with our service planning process as well as the individual performance appraisal process. Financial management is an aspect of the balanced score card that is measured as part of the appraisal

C) Current financial management

- i. How is LBL's finance managed in view of the current austerity measures implemented by central government?
Our finance has reduced significantly and it is even more important that we remain within budget. This is why the processes we have implemented as result of the audit scores has become even more important and useful to us
- ii. How are controlling functions assembled?
This is designed by the departmental heads of finance and is finally sanctioned by me and the chief executive.

D) Recommendation from the Audit Commission's report

- i. How does LBL adopt and implement financial recommendations of the audit report?
We review the recommendations and draw an action plan based on the areas that we need to improve. This is implemented across the organisation by service head monitored by senior management and Performance team
- ii. In your opinion, what has been the single most obvious internal change due to the annual audits? What other factors are important in this respect?

Individual performance management and review process. This has affected every part of the organisation as we review and increase accountability for each individual in areas such as financial control

E) Impacts of the audit process on management controls

i. In your opinion, has the audit scores impacted on LBL's financial controls?

Yes

ii. Which changes have been made to LBL's financial reporting in the past years?

Regular update on exception, project financial reports, annual financial plans, monthly budget monitoring;

Regular quarterly update from departmental heads of finance on any exceptions to the financial plans;

Oracle updates on financials for each team, monthly budget monitoring meetings with budget holders.

iii. What are the changes in parameters, legitimisation, time pressure, result orientation or information flows due to the audit scores?

Interview with the Divisional Director - Human Resources (HR)

Aim: to gain more knowledge regarding the recruitment process, employee alignment and overall company values, implications from the annual audits.

A) Background of the respondent

i. Name: Nana Amoa-Buahin

ii. Briefly describe your role and responsibilities at LBL

I am the HR director with responsibility for all people management, resilience and health and safety across the organisation

B) Previous experience in the organisation

i. How long have you worked for the company?

Nearly five years

ii. Briefly describe your past involvement with LBL.

I worked for another local authority and the Metropolitan Police

C) Recruitment procedures

i. How are employees recruited at LBL?

We have strict recruitment procedures which vary depending on the level and grade of the job. Typically, it usually involves an application, competencies questions, an assessment centre, and interviews

ii. What are the changes (if any) in the current HR management procedures?

Several.

This recruitment procedure is a change from the old procedure that relies on application and interview to make recruitment decision. We have introduced compulsory 2 reference checks for all vacancies. On other areas of people management, we have introduced yearly and bi-annual appraisal, monthly one to one, probationary procedures, and so forth

iii. What criteria do you use as evaluation of aspiring employee: factual knowledge, personality etc?

It is mixture of both. But once we see a prospective employee with the minimum level of work related skills, an assessment of personality and fit within the team and workplace culture becomes extremely important criteria

iv. Do they differ depending on position, if so: in what way?

The personality traits required is universal through the organisation and are linked to our corporate values. However, the work related skills and knowledge differ depending on the content of the job

v. How are new employees inducted into the company? Are there any formal introduction schemes?

The appraisal process has been formalised into a two, four and six monthly review. At these times, managers sit down with their employees and clarify the expectation as well provide them with any assistance required. Employees also get the regular

one to ones as well as attend first day induction, departmental induction and corporate induction. At these induction meetings, employees get an understanding of the corporate values, mission and goals.

D) Career development

- i. How do you ensure continuous enhancement of skills or individual competence development?

We provide learning and development activities available to all employees. We spent approximately 2.5% of all staff cost on developing our people. We conduct learning needs analysis which guide the provision of these activities

- ii. How do employees develop their careers? Are there any fixed numbers e.g. education hours per employee per year or similar?

As above, through the development activities provided

E) Employee evaluation

- i. How are personnel evaluated?

Please refer to the appraisal documents and the PQMF, the balanced score card and appraisal training document provided to you earlier

- ii. What are the targets and evaluation procedures used? and by whom and how often?

Target is linked to the corporate values through the golden thread approach. Each employee sits down with their line manager who reviews their performance. This done twice in a year

- iii. How do targets for the evaluation process align with corporate vision and goals?

Please refer to the PQMF documents for the discussing on golden thread

- v. In your opinion, how does the evaluation impact on employee behaviour?

Once employees become aware that they are being observed and their performance will be rewarded or 'punished' they usually change their behaviour to match what is required. Where employee fails to match up they are quickly managed out of the organisation.

F) Organisational culture

- i. What are the main characteristic of the company when it comes to internal culture?

Our culture has shifted to one with emphasis on performance and support for each other.

- ii. How is the internal culture aligned to the corporate vision and goals?

- iii. How does the organisation communicate its corporate vision and goals to the employees?

Several ways: inductions, team briefs, newsletter, team meetings, leadership network and so forth

- iv. Are employees aware of corporate visions and goals?

Our evaluations show that they are although we continue to work on this

- v. What incentive systems (rewards) are used to gain employee commitment?

Development activities, leadership, pay, final salary pension, generous annual holidays, flexible working arrangement etc

- vi. In your view, what is the single most important feature for a company in order to promote innovation? What other factors are important in this respect?

G) Impacts of the audit process on management controls

- i. Which changes have been made to LBL's HR management in the past years due to the audit scores?

Performance management systems, people management reporting, 12 new policies

- ii. In your opinion, has the audit scores impacted on employees' behaviour?

Yes, all these improvements discussed are as result of changes in employee behaviours

- iii. In your opinion, what has been the single most obvious internal change due to the annual audits? What other factors are important in this respect?

The new performance framework

Interview with the Chief Internal Auditor

Aim: to obtain overall information about internal auditing processes and how this is related to the external audits.

A) Background of the respondent

- i. Name: Mo Khan
- ii. Briefly describe your role and responsibilities at LBL

I am completely independent of the council and responsible to the government for the probity of activities of the council. I investigate all allegations of financial and major improprieties in the council. I worked closely with all the auditory authorities as well as with the police on some issues. All the whistle blowing activities come directly to me and my team.

B) Previous experience in the organisation

- i. How long have you worked for the company?

I have been here for more than 10 years

- ii. Briefly describe your past involvement with LBL.

I came here as the chief internal auditor and have done so ever since. In Lambeth, I have investigated some allegation such as the Robi even in 2002 where fraud was conducted by some members of staff. With the recommendation from my report and that of the subsequent audit, we have implemented programmes that have completely cut these out. Recently, most of our investigations have been into activities of residents in areas such as benefit fraud

- iii. In your opinion, what are the changes in the current performance management procedures?

People management and the performance management procedures have improved significantly because we realised that would touch all the areas of improvement that we require. Financial probity has improved significantly and projects are managed more effectively for the benefit of our residents

- iv. How has auditing procedures evolved since you have been in the role?

With regards to audit by the audit commission, this has set of statutory procedure that is followed and this has not changed much. However, the individual approach within this procedure may have changed. In the past, we provided just the documents that the audit commission wanted whilst now, we are much more proactive in providing them documents that we think demonstrate our performance. This usually means we give them more documents than they require but help them get a more rounded picture of our activities

C) Internal audits

- i. How does the internal audit team conduct its work at LBL?

We take all the whistle blowing allegations and investigate them. We also investigate any other major allegations

- ii. What are the statutory requirements for documentation, procedures and processes during the audit process?

Any investigation needs to have an audit trail. This is basic stuff. We keep copies of any allegation, documentary evidence, investigatory procedure followed and any outcome that we have determined.

- iii. How does the internal auditing complement the work of the Audit Commission?

Internal audit is significantly different from the audit by audit commission, we investigate allegation of inappropriate behaviours or activities and audit commission audit the council's overall performance against expectation. The link between our work and the audit commission is that they use our reports as an initial indication of the environment within the workplace

- iv. How has management procedures changed over as a result of the activities of the internal audit team?

Every investigation outcome will usually have a section with recommendation for improvement. This may relate to systems, procedures or people management. These have formed the basis of several new policies and initiatives.

D) Recommendation from the Audit Commission's report

- i. How does LBL adopt and implement financial recommendations of the audit report?

The management team discusses with audit recommendation and agree on action plan for improvement on the areas identified. This is done with the service teams and the Performance teams.

- ii. In your opinion, what has been the single most obvious internal change due to the annual audits? What other factors are important in this respect?

Performance management procedures across the council. Take a look at the new appraisal process, balanced score card and so forth

E) Impacts of the audit process on management controls

- i. In your opinion, has the audit scores impacted on LBL's financial controls?

Yes, both internal investigations and the audit recommendations by the audit commission have shaped our processes.

- ii. Which changes have been made to LBL's financial reporting in the past years?

Oracle financial implementations, e-procurement, regular finance meeting by departmental heads of finance and finance director, regular budget monitoring meetings and so forth

- iii. What are the changes in parameters, legitimisation, time pressure, result orientation or information flows due to the audit scores?

Follow up interview/confirmatory interviews questions with the Divisional Directors responsible for HR and Policy

- vii. What changes do you see in the way the council manages performance of employees?

HR Director: Performance management is our priority and supporting each employee to deliver on our mission is an ongoing importance. With this in mind, we have looked at our PQMF and improved on organisation performance as well as individual performance management process. Appraisal looks at the performance through a balanced score card and there is regular process of meeting between each employee and their line manager. This meeting is used to assess how the employee is progressing in the areas identified and provide the necessary support.

We monitor this process to ensure that the meetings are happening and that they of sufficient quality. We also provide training for managers and their staff on this process.

Policy Director: the individual performance described above sits in a much bigger performance management and quality management framework PQMF. As the document I gave you indicated (see case study folder) we are looking at the gilden thread to performance. Corporate plan directs a services plan which directs team plans and that alos the individual objectives. Thus, it is easy for the person to see the link between their objective and the overall organisational mission

- viii. What impact has the annual audit from the audit commission had in the way people are managed to deliver organisational results?

HR Director: the audit recommendation marked for improvement the area of Managing people. As a result we have reviewed are people management procedures with staff and managers to identify the areas that we were weak. With these, we put together improvement plan for managing people. Activities that we have completed are the people management procedure guidance for managers, performance appraisal training for managers and staff, monthly one to ones, capability procedure, sickness procedure, grievance procedure and so forth. We continue to report on quarterly basis issues of people management through people management report and quarterly performance digest

Policy Director: as described above

- ix. Can you provide me with an example of a changed in a policy, procedure, or expectation that has arisen as direct result of the annual audit?

HR and Policy Director: See above for examples though not exhaustive list

- x. What trade-offs were required between the Audit Commission requirement and other stakeholders in this instance?

Both: Employees and customers want speed, the senior management wants to reduce cost and the audit commission wants certain key statutory standards met. These had to be reconciled and in some circumstances compromises had to be reached. However, key performance targets were usually the yard stick as far as it was within budget.

- xi. Has recommendations from the Audit Commission negatively impacted on your work? If yes, how?

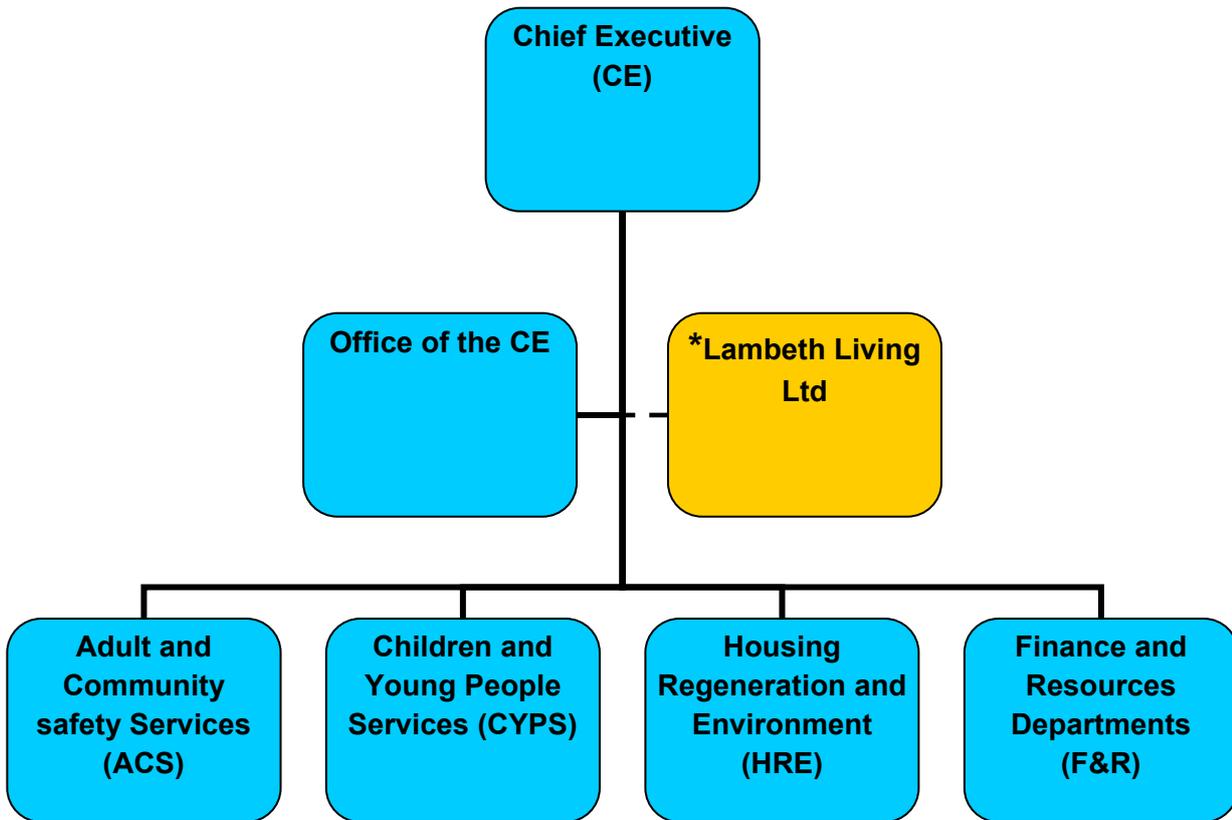
Both: No, in most instances they emphasised performance target that had to be reached. IN times that we did not agree with their findings, it was usually because of lack of adequate information or incomplete information

- xii. In your opinion, why has the audit scores of the annual audits completed by the Audit Commission influenced management controls at LBL?

HR Director: we have changed performance management systems, monitoring procedures, policies so the answer is simply yes. The questions is would these changes had occurred even without the audit scores? It certainly provided the impetus for the change but these changes were necessary if the council wanted to improve with or without audit scores

Policy director: yes, our PQMF is as a result of an audit improvement plan. We have always analysed the audit scores and improve whatever is necessary. Most improvement are only possible with change in employee performance which can only be achieved by improving management controls.

Appendix C: Organisational Structure at LBL



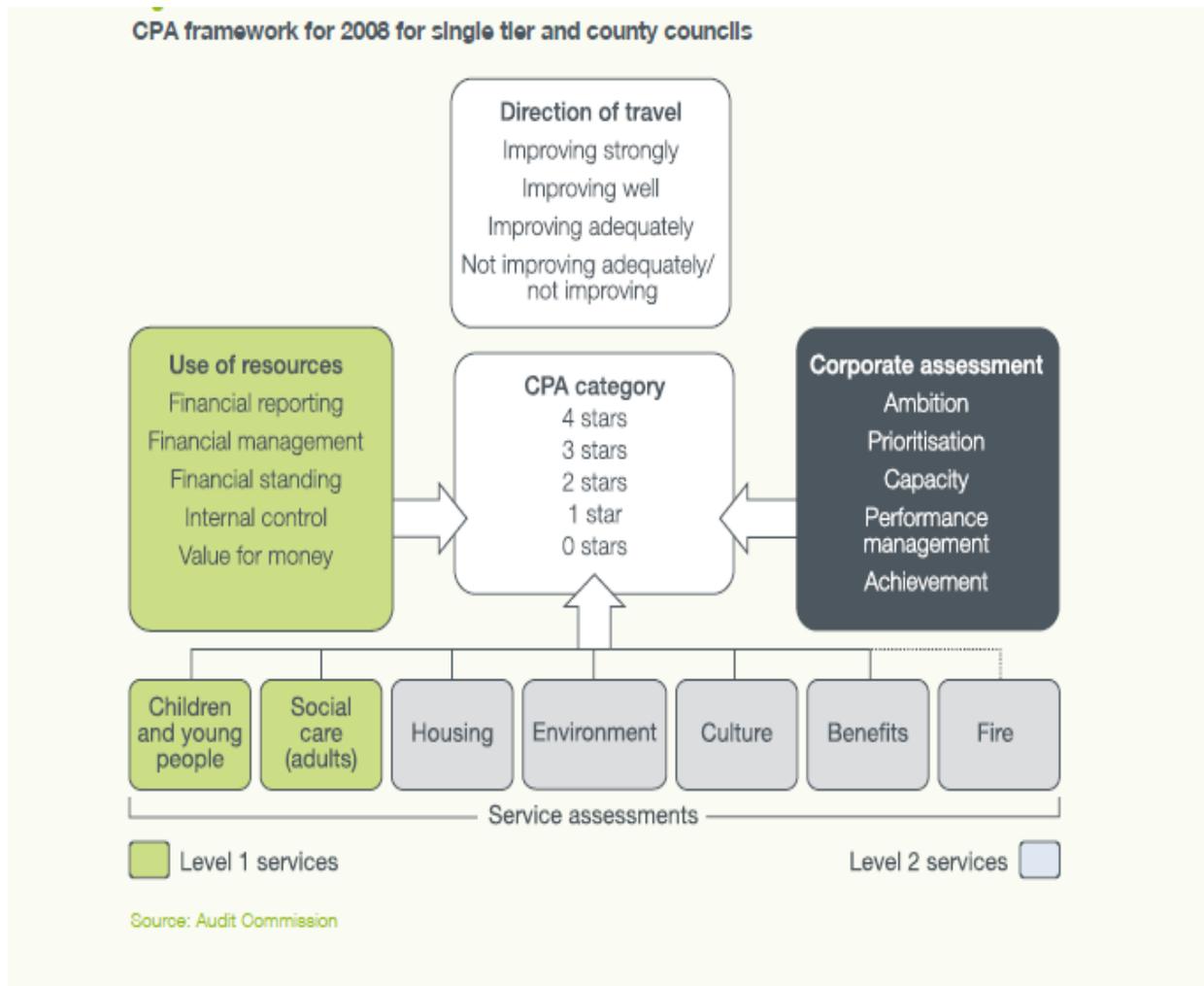
* Lambeth Living Ltd is the Arms Length Management Organisation (ALMO) owned by Lambeth Council to manage all of its social Housing stock (Source: www.lambeth.gov.uk).

Appendix D: Changes to the Political Administration at LBL

Year	Party in local control	Party in central government	No of Councillors for Labour	No of Councillors for Liberal Democrats	No of Councillors for Conservative	No of Councillors for others
2010	Labour	Liberal Democrats & Conservative coalition	44	15	4	-
2006	Labour	Labour	37	17	6	1
2002	Liberal Democrats & Conservative coalition	Labour	28	28	7	-
1998	Labour	Labour	41	24	16	

(Source: www.lambeth.gov.uk).

Appendix E: Comprehensive Performance Assessment (CPA) Framework



(Source: www.audit-commission.gov.uk)

Appendix F: Corporate Assessment Scores

Corporate Assessment 2002

Corporate Assessment Score

Corporate Assessment Score			
Key Question	Theme	Un-Weighted Score	Weighted Score
What is the council trying to achieve ?	Ambition	2	2
	Focus	2	2
	Prioritisation	1	1
How has the council set about delivering its priorities ?	Capacity	2	2
	Performance Management	1	1
What has the council achieved/not achieved to date ?	Achievement	1	3
	Investment	2	4
In light of what has been learnt, what does the council plan to do next ?	Learning	3	3
	Future Plans	2	2
TOTAL THEME SCORE			20
OVERALL CORPORATE ASSESSMENT SCORE			1

Source: Corporate Assessment, December 2002

Available from: www.audit-commission.gov.uk

Corporate Assessment 2004

Corporate Assessment Score

Key Question	Theme	2002 Final Weighted Score	2004 Un-Weighted Score	2004 Weighted Score
What is the council trying to achieve?	Ambition	2	3	3
	Prioritisation	1	2	2
	Focus	2	3	3
How has the council set about delivering its priorities?	Capacity	2	3	3
	Performance management	1	2	2
What has the council achieved to date?	Achievement	3	2	6
	Investment	4	3	6
In light of what has been learnt, what does the council plan to do next?	Learning	3	3	3
	Future Plans	2	3	3
TOTAL THEME SCORE		20		31

Source: Comprehensive Performance Assessment, December 2004.

Available from: www.audit-commission.gov.uk

Table 2 Our overall assessment - CPA scorecard

Element	Assessment
Direction of Travel Judgement	Improving well
Overall	1 star
Current performance	
Children and young people (OFSTED & CSCI) ^a	3 out of 4
Social care (adults) (CSCI) ^a	3 out of 4 ^{**}
Use of resources	2 out of 4
Housing	2 out of 4
Environment	3 out of 4 ^{**}
Culture	1 out of 4
Benefits (BFI) ^a	3 out of 4 ^{**}
Corporate assessment/capacity to improve (not reassessed in 2006)	2 out of 4

(Note: 1=lowest, 4= highest)

^a These assessments are based on the work of other Inspectorates viz. OFSTED, Commission for Social Care and the Benefits Fraud Inspectorate.

^{**}These services increased their scores from two to three stars during 2006.

Source: Audit Commission

Source: Annual Audit and Inspection Letter, Audit 2005/2006, March 2007.

Available from: www.audit-commission.gov.uk

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving strongly
Overall	3 star
Corporate assessment/capacity to improve	2 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	3 out of 4
Use of resources*	3 out of 4
Housing	2 out of 4
Environment	2 out of 4
Culture	2 out of 4
Benefits	3 out of 4

*(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)*

Source: Annual Audit and Inspection Letter, Audit 2006/2007, March 2008.

Available from: www.audit-commission.gov.uk.

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	3 stars
Corporate assessment/capacity to improve	3 out of 4
Current performance	
Children and young people ^a	3 out of 4
Social care (adults) ^a	3 out of 4
Use of resources ^a	3 out of 4
Housing	3 out of 4
Environment	3 out of 4
Culture	2 out of 4
Benefits	3 out of 4

(Note: ^a these aspects have a greater influence on the overall CPA score)

(1 = lowest, 4 = highest)

Source: Annual Audit and Inspection Letter, Audit 2007/2008, March 2009.

Available from: www.audit-commission.gov.uk

Summary of assessment scores

Headline questions	Theme	Score*
What is the Council, together with its partners trying to achieve?	Ambition	3
	Prioritisation	3
What is the capacity of the Council, including its work with partners, to deliver what it is trying to achieve?	Capacity	2
	Performance Management	3
What has been achieved?	Achievement	3
Overall Corporate Assessment Score **		3
* Key to scores		
1 – Below minimum requirements – Inadequate performance		
2 – At only minimum requirements – adequate performance		
3 – Consistently above minimum requirements – performing well		
4 – Well above minimum requirements – performing strongly		

Source: Corporate Assessment, January 2009.

Available from: www.audit-commission.gov.uk

