

Using management control to understand public sector corporate governance changes

Localism, public interest, and enabling control in an English local authority

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Abstract

Purpose – Within the context of recent post-localism developments in the English local government, this paper aims to show, first, how management controls have become more enabling in response to changes in rules of public sector corporate governance and, secondly, how changes in management control systems gave rise to new corporate governance practices.

Design/methodology/approach – Theoretically, the paper mobilises the concept of enabling control to reflect on contemporary changes in public sector corporate governance. It draws on the International Federation of Accountants' (IFAC) and Chartered Institute of Public Finance and Accountancy's (CIPFA) new public sector governance and management control system model and data gathered from a longitudinal qualitative field study of a local authority in North East England. The field study used interviews, observation and documentation review.

Findings – This paper suggests specific ways in which the decentralisation of policymaking and performance measurement in a local authority (present case) gave rise to enabling corporate governance and how corporate governance and management control practices went some way to aid in the pursuit of the public interest. In particular, it shows that the management control system can be designed at the operational level to be enabling. The significance of global transparency for supporting corporate governance practices around public interest is observed. This paper reaffirms that accountability is but one element of public sector corporate governance. Rather, public sector corporate governance also pursues integrity, openness, defining outcomes, determining interventions, leadership and capacity and risk and performance management.

Practical implications – Insights into uses of such enabling practices in public sector corporate governance are relevant for many countries in which public sector funding has been cut, especially since the 2007/2008 global financial crisis.

Originality/value – This paper introduces the concept of enabling control into the public sector corporate governance and control debate by fleshing out the categories of public sector corporate governance and management control suggested recently by IFAC and CIPFA drawing on observed practices of a local government entity.

Keywords Management control systems, Localism, Austerity, Local government, Enabling control, Public sector corporate governance

Paper type Research paper



1. Introduction

This paper uses a management control perspective to shed light on some of the ways in which “localism”, a programme of selective devolution of policymaking from central to local

government in England, has enabled local authority corporate governance practices to pursue, what we term, public interest. In the context of local government, we define public interest as intended outcomes for stakeholders in line with the International Federation of Accountants' (IFAC) and Chartered Institute of Public Finance and Accounting's (CIPFA) definition of public sector corporate governance as "the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved" (IFAC and CIPFA, 2014, p. 8). This is a departure from corporate governance notions that focus on transparency and accountability (Brennan and Solomon, 2008), especially in the public sector (Ezzamel and Willmott, 1993; Eckersley *et al.*, 2014; Ferry *et al.*, 2015). It implies good governance in the public sector is not just being accountable according to certain formal criteria on reporting occasions, but rather, it is to facilitate entities acting in the public interest at all times. IFAC and CIPFA (2014, p. 14) visualise this definition with a wheel that embraces seven principles (Figure 1).

This "wheel" representation diagram defines "acting in the public interest" with reference to two governance principles located in the central "hub" and five management control elements located in the "spokes" of the wheel. The two governance principles are, first, strong commitment to integrity, ethical values and the rule of law and, secondly, openness and comprehensive stakeholder engagement (IFAC and CIPFA, 2014, p. 10). The five elements of

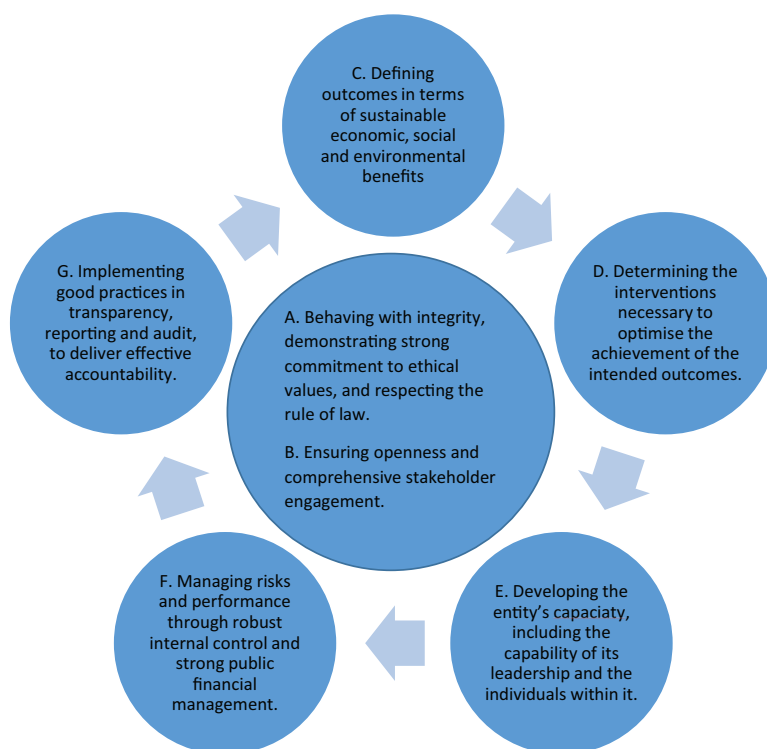


Figure 1.
Relationships
between principles
for good governance
in the public sector
(achieving intended
outcomes while
acting in public
interest)

Source: "Hub" and "spokes" wheel diagram adapted from IFAC and CIPFA (2014) international framework good governance in the public sector

management control are defining outcomes, determining interventions, developing leadership and capacity, managing risks and performance and implementing practices transparently and supporting delivery of effective accountability (IFAC and CIPFA, 2014, p. 10). The management control elements are justified by the idea that acting in the public interest involves concerns for the internal business practices of public sector agencies. It articulates concerns frequently voiced in the regulatory and policymaking arena that have, thus far, only been sporadically addressed in the academic discussion (Almquist *et al.*, 2013; Saliterer and Korac, 2013).

An arena of still on-going change of public sector corporate governance through which the connections between the hub of corporate governance and the spokes of management control have assumed new significance is the governance of English local authorities under the UK's Conservative–Liberal Coalition central government localism agenda. Prior to the Localism Act 2011, the local authorities were controlled by the central government through externally specified audited performance management frameworks, but afterwards, the Comprehensive Area Agreements were scrapped and the Audit Commission abolished. It is the contention of this paper that local authorities are still controlled by the central government but to a lesser extent. This is because decentralised powers to self-determine services are constrained by centralised control over funding and regulations on various statutory services.

Nevertheless, the localism changes have opened up a space for local authorities to determine their own performance reporting in bottom-up ways that can, potentially, enable the locally defined public interest to be served differently, albeit under conditions of austerity that mean it is local authorities themselves who have to mete out the cuts. It is in this context of austerity localism (Lowndes and Pratchett, 2012) that we suggest the relevance of a management control concept – enabling control – for exploring some of the new ways in which public sector corporate governance is being practised in English local authorities. The notion of enabling control is still relatively recent (Ahrens and Chapman, 2004) and has been highlighted as a promising approach for future control research (Berry *et al.*, 2009). It is founded on the idea that control systems should not treat their users – be they head office managers, branch managers or shop floor and service workers – like automatons but instead reckon with their intelligence. Enabling systems do this by lending themselves to “repair” through the users themselves in case something happens that was unforeseen by the control system designers. In this sense, the notion of enabling control is attuned to the governance task of defining control parameters. It thereby potentially blurs the boundaries between management control and governance.

The aim of this paper is to show how changes to the rules for local authority corporate governance have given an impetus for changes to management control and how they have served as a basis for newly emerging corporate governance practices. We document some initial difficulties in connecting measurements and management with political objectives but also identify some emergent qualities of local authority governance practices that facilitate the pursuit and negotiation of emerging local priorities through which the public interest is defined. Borrowing from the management control literature, we term these qualities “enabling”. It will be shown that the system can be designed at the operational level to be enabling rather than having to be established by the head office for business units (Ahrens and Chapman, 2004) or as a collaboration between head office and business units (Jorgensen and Messner, 2010).

2. Mobilising the notion of coercive and enabling control in the context of corporate governance

The distinction between coercive and enabling control is derived from Adler and Borys' (1996, p. 69) discussion of coercive and enabling bureaucracies:

The goal was to design successful interactions between people and [systems] rather than to design foolproof [systems], to help the user operate the system efficiently rather than to only protect the user from breakdowns [...] The parallels to the design of organisational technology are strong. Formal procedures do not have to be designed to make the work process foolproof.

Adler and Borys (1996, p. 70) identify four generic features that distinguish coercive and enabling approaches: repair, internal transparency, global transparency and flexibility. Repair refers to “the ease with which users can repair the process themselves rather than allowing the breakdown to force the work process to a halt” (p. 70). “The enabling logic [...] generates procedures that facilitate responses to real work contingencies” (p. 71). “Internal transparency refers to internal functioning of the (system) as used by employees” (p. 72). “They provide users with an understanding of the underlying theory of this process by clarifying the rationale of the rules [in which] [l]ayered access is the key” (p. 72).

Global transparency refers to the intelligibility for employees of the broader system within which they are working. Procedures are therefore designed to afford them an understanding of where their own task fit into the whole (p. 73)[1]

Regarding flexibility, “[t]he coercive procedure manual defines in detail the specific sequence of steps to be followed” (p. 74), whereas “[a]n enabling procedure manual assumes that deviations are not only risks but also learning opportunities” (p. 74).

From these system features, Adler and Borys (1996) characterise as enabling a bureaucracy that (1) exhibits “flexibility” in the deployment of its rules, (2) helps organisational members understand the internal workings of their own task (“internal transparency”) and (3) how their task fits into the organisational mission and how it seeks to provide products and services (“global transparency”) and thus (4) remains open for situation-specific “repair” by those who are subject to the rules of the bureaucracy.

Applying those four features to management control systems as bureaucratic subsystems of organisations, Ahrens and Chapman (2004) develop the notion of enabling control systems. Building on this research work, in private sector management accounting literature, it has been shown that coercive control may be used in enabling ways through the use of system feature characteristics such as repair and flexibility (Ahrens and Chapman, 2004; Free, 2007; Chapman and Kihn, 2009; Jorgensen and Messner, 2010) and characteristics of the processes used in the system design and implementation context (Wouters and Wilderom, 2008; Wouters and Roijmans, 2011). In addition, the system design has been researched when established by the head office for business units (Ahrens and Chapman, 2004), as collaboration between the head office and business units (Jorgensen and Messner, 2010) and when performance measurement systems can be adapted at the local level during development and experimentation (Wouters and Wilderom, 2008; Wouters and Roijmans, 2011). There has been less insight into comprehensive bottom-up system design from operational levels.

In contrast to the management control context, which exhibits relatively greater certainty over organisational objectives, the corporate governance context is characterised by the option to reflect fundamentally on the nature and importance of the claims of different stakeholders on the organisation and how those claims ought to be balanced or ranked. In this sense, the notion of enabling organisational members to use organisational systems flexibly to improve transparency of operations and pursue organisational goals under varying circumstances would appear as applicable to corporate governance systems as it is to management control systems. For just as enabling management control systems can find ways of making financial performance information, which is often intended for external communication, relevant for management purposes, enabling corporate governance

systems could likewise translate external governance reporting concerns with accountability, transparency and ethics into organisational practices that are relevant and helpful for task completion (Ahrens, 2008).

An important caveat applies, however. The distinction between coercive and enabling control can be muddled by the capitalist context in which it is found. Adler (2012), in a recent reflection on the literature that has been spawned by Adler and Borys' (1996) initial distinction between coercive and enabling, observes that bureaucratic systems often exhibit coercive and enabling features simultaneously. For example, a total quality management system may treat its workers as smart contributors to the overall productive effort and support them with education, problem-solving tools, quality circle budgets, etc., and thus be perceived as enabling to achieve excellent task performance. At the same time, however, workers may, at least in part, perceive this management system as coercive because in a context of capitalist competition, it may be geared towards continuously tightening the targets for production tasks (Arnold, 1998). This would send a conflicting message: The worker is not only a smart contributor but also a Chaplinesque cog in the wheel of "the great machine".

Our study is different from the context considered by Adler (2012) in two respects. By studying enabling corporate governance with management control elements, instead of just enabling management control, we are not taking existing stakeholder trade-off arrangements as given. We are looking, in part, at situations in which specific management control parameters are defined by corporate governance. The enabling nature of work extends to the definition of objectives, not just the activities by which given objectives are pursued, for the very design of the enabling control system lies in the hands of those local authorities whose performance is going to be controlled by the central government.

Furthermore, by studying corporate governance in a local authority, we are avoiding the structural constraints of the capitalist context considered by Adler (2012). Even though public sector corporate governance in England under the current conditions of austerity means that budgets operate under tight spending constraints, those constraints are not applied on the basis of a surplus distribution system that seeks to maximise shareholder payoffs. Public sector funds are not capital that seeks the highest return. Rather, within the constraints of central government funding and statutory requirements, priorities are subject to processes of political negotiation and funds are frequently spent strategically to generate political returns for the incumbent government (Ahrens and Ferry, 2015, 2016). The actors in our study do therefore not explicitly work with capitalist priorities for the uses of funds.

3. The English local authority corporate governance context

In our research into potentially coercive and enabling aspects of local authority corporate governance in England, we found various rules for personal conduct, organisation arrangements and inspection regimes from prior to the Localism Act 2011.

Following the Localism Act 2011, local authority performance reporting requirements have become much less specific than they had become over the almost 15 years of the previous New Labour government. This is because the Conservative-led Coalition government reduced external audit's role, disbanded centrally imposed rules for performance reporting by local authorities such as Comprehensive Area Agreements and devolved greater decision-making powers to local authorities (Ferry and Eckersley, 2015; Ferry and Murphy, 2017). Using IFAC and CIPFA's (2014) framework, we aim to show the effects of the changes brought about by localism on local authority corporate governance.

Three decades ago, Hopwood (1983) suggested the significance of the external origins of internal accounts, especially for accounting and governance in the public

sector (Hopwood, 1984). Internal accounts would include management control systems, whose processes can be both designed and used by corporate governance practices. The impact of accounting change in the public sector has been well documented (Humphrey and Miller, 2012), including to show the effects of centrally imposed performance regimes on local authorities (Ferry *et al.*, 2015). Little attention, however, has thus far been given to the issue of management controls of the public sector (Ahrens and Khalifa, 2015; Ferry *et al.*, 2017; Modell, 2012; Moll and Hoque, 2011) and especially controls that are used “in pursuit of the intended outcomes for stakeholders” (IFAC and CIPFA, 2014, p. 8) and thus form part of its corporate governance.

Conceptual efforts by international professional accounting bodies (IFAC and CIPFA, 2014) suggest that defining priorities, determining interventions, leadership and capacity and risk and performance management are not only management control systems but also part of internalised corporate governance practices that are affected by and in turn facilitate transparency and accountability to help ensure organisational actions are in the public interest. They thus envision management control in the service of the broader definitions and principles of public sector corporate governance.

Those suggestions should be seen in the context of a global shift from government to governance within the public sector. The introduction of governance highlights a change in the meaning of government: It could become a process of governing or a changed condition of ordered rule or a new method by which society is governed. When specifying this process, condition or method, various elements of governance matter.

In this paper, we focus on corporate governance, which remains relatively neglected in public sector accounting research. Whereas accounting researchers tend to focus on accountability and transparency, audit, monitoring and incentive arrangements for governance towards external stakeholders (Ferry *et al.*, 2015), much less attention is given to the uses of accounting, performance measures and managerial rules for corporate governance (for exceptions, Saliterer and Korac, 2013; Tremblay, 2012) and the implications for corporate governance practices and management control (Roussy, 2013).

Nevertheless, numerous accounting-based regulatory reports on public sector corporate governance in the UK and internationally now emphasise the importance of achieving overall outcomes to address public interest concerns and not just individual elements of governance such as accountability (Bergmann, 2012; CIPFA, 2010).

4. Research context, approach and methods

Within the context of “austerity localism”, i.e. between 2010 and 2014, a field study of corporate governance was conducted in the local authority administration of Newcastle City Council (NCC). It is the local government authority for Newcastle upon Tyne, a city metropolitan borough in Tyne and Wear, North East England.

NCC was then, and still is, controlled by the main opposition party, Labour. It consists of 78 councillors, three for each of the city’s 26 wards. The city is at the urban core of the Tyne and Wear conurbation, with an estimated net revenue budget for 2012/13 of c. £265m and a city metropolitan borough population of c. 280,000, within the Tyne and Wear population of c. 1.1 million (Office for National Statistics 2013 estimate). The council delivers a full range of services. NCC is a member of the English Core Cities Group and, together with Gateshead Metropolitan Borough Council, the Eurocities network of European cities.

To study corporate governance at NCC, the research used interviews, observation and documentation review from a field study that covered over four years. The study involved a total of 50 interviews with staff from governance, finance, performance measurement and functional areas, which took place within the context of localism and austerity. Interviews

discussed governance, strategy and the role of accounting for management control and corporate governance. Interviews were supplemented by many more informal conversations that continued with local authority staff during the study and up to the time of submitting this paper for publication. Observations of governance, finance and performance practices and general office practices were also made by one researcher who is a qualified accountant with former senior-level local government and civil service experience. In addition, the researcher attended large demonstrations and formal and informal meetings of various campaign groups who were lobbying against cuts in budget allocations. Current and historical documentation were reviewed to triangulate data from interviews and observations.

The analysis of the data started during the field research. Data were organised by themes that were initially derived from the original research interests. Different attempts were made to weave themes into a theoretical narrative that would contribute to contemporary discussions in accounting research. Here the focus lay on thinking through the conditions and implications of having performance measures designed by the functional areas themselves (Ahrens, 2004). In this context, we were initially intrigued by the subjects' often vague references to performance measures as a way of developing policy as well as service provision targets. In seeking to conceptualise the subjects' experience of corporate governance processes (Ahrens and Khalifa, 2013), we came to conceive of developments in the field as an issue of newly developing forms of public sector corporate governance paralleled by newly emerging management control systems. Having been aware of various accounting bodies' attempts at building conceptual bridges between governance and control, we resolved to write a case study that would be able to flesh out their attempts. The theoretical resources for this we borrowed from the enabling management control literature because it helped us think about the performance measurement design activities in the field and offered a template for conceiving of the management uses of corporate governance information.

In this process of narrativising our research, we proceeded in accordance with quality criteria for conducting good interpretive research (Ahrens and Chapman, 2006; Ahrens and Dent, 1998). The making of themes and patterns began during the initial data collection stages. As additional data were collected and analysed, a more detailed and systematic analysis was continuously undertaken of transcribed interviews, archival documents and contextual data, ensuring all relevant information was considered in the emergent patterns.

The following two sections present and discuss our research findings.

5. Corporate governance through decentralisation of policymaking and performance measurement

Following the abolition of much of the central government targets for specific policy measures under localism, local authorities have had to determine what aspects of performance to measure and how. NCC, the local authority which we studied, used to have a corporate performance measurement team to ensure compliance with central government targets. However, the corporate performance measurement team was disbanded, as there was no longer a perceived need to address national frameworks, benchmark criteria and auditability of performance that would result in league table comparisons. This meant some staff were made redundant and others transferred to different roles. This obviously led to some resistance, as trade unions were against redundancy and career paths of staff were fundamentally altered. Nevertheless, the transfer of some of the staff into functional areas was done to assist in establishing benchmarks that were now localised and reported internally. This was a cultural re-orientation. As a result, some functional areas used

outcome-based accountability as a management control system. Staff training was given in this management control system to assist with its implementation and use and as a means to overcome resistance by highlighting empowerment of the more decentralised nature of management control.

[. . .] there is a bit of a revolution internally [. . .] we have changed performance measurement to "Outcome Based Accountability" [. . .] Initially this was adopted mainly by Children's Services and Adult and Community Services, which are the largest functional areas measured by budgets [. . .] who understood the profession and planning for their functional area rather than the generalists who did performance measurement for all functional areas from the corporate centre [. . .] (Performance Manager from Corporate Centre)

Performance measurement was decentralised to functional areas to encourage a bottom-up determination of performance measurement within the local authority. This is an important dimension of the enabling potential of corporate governance and management control because it enables flexibility at a functional area level. Corporate control is retained only in so far as functional results must comply with a cash limit budget. This, rather than operational measures, is now monitored by the central finance function. Hierarchical compliance is therefore no longer seeking to fulfil detailed central government performance targets but only the overall local authority budget constraint.

The main changes in the local authority's corporate governance practices brought about by the change from centralism to localism are illustrated in [Table I](#).

Using the IFAC and CIPFA (2014) hub and spokes framework, [Table I](#) highlights that the relationship between the central government and the local government is predominantly one between the controlling and the controlled. This was the situation under centralism and remains the case after the shift to localism.

However, whereas prior to localism, coercive control dominated all aspects of the relationship between central and local government, some corporate governance and management control elements have since begun to be locally determined, such as how to conduct consultations, define outcomes, determine interventions or define performance and risk measures. Insofar as the capacity for such local determinations is intended to produce outcomes that are more suitable for the local population, they represent shifts to relatively more enabling control to meet the public interest.

As we are interested in emerging corporate governance and management control changes post localism, this paper will focus on the enabling changes, in particular how the local authority uses any areas of new found autonomy to incorporate any elements of enabling management control, i.e. flexibility, local and global transparency and repair, into their corporate governance practices.

The headings for the coming subsections are based on the "hub and spokes" framework to help us organise the fieldwork material in a meaningful way. Throughout the data section, we pursue the theme of how, in the various specific contexts, the public interest is constituted and its pursuit facilitated through corporate governance practices.

5.1 Hub of the wheel

5.1.1 Integrity, ethics and the law. Local government as an institution, local politicians and officers, staff and those who carry out its services in various relationships whether commercial or otherwise are expected to have a "strong commitment to integrity, ethical values and the rule of law". Many of the statutory controls, laws and codes of conduct from prior to the Localism Act remain in place, emphasising the controlling role of the central government.

Table I.
Changes in corporate
governance practices

Corporate governance practice	Centralism	Localism	Change in the relationship between the controlling central government and the controlled local government
Hub 1 – Integrity, ethics and law	Central government imposed, especially through Local Government Act (2000) new Ethical Framework which created a central standards board to monitor local government ethics	Monitoring of standards were localised with the abolition of the new ethical framework and central standards board, but still many centrally prescribed statutory rules and other laws remain in place	Still controlling through statute, other laws and codes of conduct, but to a lesser degree as monitoring of standards have become more localised
Hub 2 – Openness and comprehensive stakeholder engagement	Central government imposed Freedom of Information Act for openness of Local Government and consultation through plethora of performance management frameworks	Central government increased openness through Transparency Agenda, but consultation become locally determined e.g. NCC's stakeholder engagement through "Let's talk Newcastle"	Controlling of openness increased, but reduced for stakeholder engagement although local government maintained processes to help management control spokes of the wheel
Spoke 1 – Defining outcomes	Central government imposed service and performance planning requirements for outcomes	Locally determined service and performance planning for outcomes, but still some central prescription for statutory services	Still controlling by prescription of outcomes for statutory services
Spoke 2 – Determining interventions	Central government imposed interventions through performance measurement frameworks that were managed within municipality by corporate centre Medium-term financial strategy and balanced budget	Locally determined interventions at functional area level Financial requirements remain	Still controlling by funding
Spoke 3 – Leadership and capacity	Top-down from central government to corporate centre and onto functional units Specific roles for CEO (service delivery), Finance Director (balanced budget) and Monitoring Officer (due processes of governance) Functional Area Directors may have some statutory functions, e.g. Children Services, Adult Services	Bottom-up from functional areas, with central coordination of overall budget Specific roles remain Statutory functions remain	Still controlling of statutory key roles, but not of everyday management practices

(continued)

Corporate governance practice	Centralism	Localism	Change in the relationship between the controlling central government and the controlled local government
Spoke 4 – Managing risks and performance	<p>Central government performance management arrangements, e.g. Comprehensive Area Agreements imposed on municipality. Managed by corporate centre</p> <p>Centrally imposed benchmarks</p> <p>Centrally imposed use of resources assessment including risk management</p>	<p>Locally determined performance management arrangements by functional areas</p> <p>Local benchmarks with regional comparators</p> <p>Risk management locally determined, but still audit of internal control system</p>	<p>Less controlling as balanced budget, and not service outcomes and means of intervention, becomes priority of Central Government under austerity</p>
Spoke 5 – Accountability and transparency	<p>Audit Commission external audit not only covered financial performance and value for money but also operational and organisational performance</p> <p>Transparency through "Freedom of Information"</p> <p>Statutory services need to be delivered</p>	<p>Audit Commission disbanded. Financial audit and value for money studies transferred to National Audit Office. Operational and organisational performance assessments scrapped</p> <p>Transparency through "Freedom of Information" further supplemented by "transparency agenda" (all transactions over £500 have to be published), and a "right to challenge" incumbent service provider. So reduction in professional audit and increase in citizen armchair auditors</p> <p>Statutory services still need to be delivered</p>	<p>Still controlling, but with a reduction in formal professionalised audit of performance being replaced by increased transparency of data and informal armchair auditors</p>

Table I.

However, a significant change concerned winding up of the centralised Standards Board for England that oversaw a code of conduct of ethical standards in the local government and retained an independent national overview of local authority investigations into allegations.

In accordance with the Localism Act 2011, “NCC has established a standards committee with arrangements for addressing any allegations against local politicians” (Head of Governance and Information). All complaints alleging members have breached their code of conduct must be made to the monitoring officer who decides whether it merits investigation. Independent persons are involved in the decision-making. Detailed procedures are published online.

As the arrangements are designed to support NCC officers make contextually sensitive decisions about standards and ethics and give guidelines on what constitutes breaches, they potentially enhance global transparency and provide a means of repair.

5.1.2 Openness and comprehensive stakeholder engagement. “Openness and comprehensive stakeholder engagement” remain key elements of acting in the public interest under localism, but arrangements have changed. Prior to the Localism Act 2011, NCC already practised openness with regards to publishing online all their decisions, associated rationales and potential impact and implications, plans, actions, resource use, forecasts, output and outcomes unless it was restricted under rules in the broader public interest. Citizens could request data under the Freedom of Information Act.

Localism forced greater openness on local authorities. The Code of Recommended Practice for Local Authorities on Transparency 2011 committed them to publish data on all expenditure over £500, senior salaries, councillor allowances, policies, performance, external audits and key inspections and key indicators on the authorities’ fiscal and financial position and data on the democratic running of the local authority.

NCC has also added new mechanisms for stakeholder engagement as part of global transparency, particularly through “Let’s talk”, which was presented as “a new conversation with our city” (Leader of the Local Authority). It offered an interactive forum for accountability based on citizens’ and other stakeholders’ involvement.

“Let’s talk Newcastle” involves a range of activities that will take place across all wards in the city. These will allow more coordinated conversations to take place at all levels, which ultimately link the things local people raise, with the big policy decisions we take. (Leader of the Local Authority in launch event speech for Let’s talk Newcastle, 12 July 2011, www2.newcastle.gov.uk/wwwfileroot/cxo/consultation/LetstalkNewcastlelaunchNickSpeech.pdf)

To link the things that local people raise with the policy decisions taken by NCC, there are four types of activities taking place. “Talkabout” is a series of conversations with stakeholders about what they think the future priorities should be. “Walkabout” consists of visits to communities and local services and get to know local issues. “Thinkabout” seeks information and advice from people about the local authority’s strategic issues. “Decideabout” gives local people the opportunity to be involved in decision-making, for example, through ward committees, public meetings, etc. “Let’s talk Newcastle” online provides an online community engagement tool. Additionally, stakeholders can get involved online through email, Twitter or Facebook; by telephone; in writing; and in person.

In addition to engaging individual citizens and service users through “Let’s talk” in defining outcomes, there were also budget participation meetings to help determine interventions and engagement with institutional stakeholders such as trade unions, chamber of commerce and the core cities group of local authorities to lobby central government on the fairness of funding settlements. This global transparency was therefore not specific to NCC but institutionalised across the local government field.

However, NCC were accused of creating “Let’s talk” and other means of engagement simply for show, to legitimate their spending cuts, rather than as a sincere means of listening to the people of Newcastle and actually facilitating their input into policy decisions. For example, Liberal Democrat opposition leader David Faulkner proposed:

[. . .] scrapping the Let’s Talk programme[. . .] We believe that the Council’s budget consultation is seriously deficient, as there is hardly any change after three months of consultation and controversy[. . .] (Liberal Democrats, Spring 2013 Focus Newsletter, <https://davidfaulkner.mycouncillor.org.uk/files/2013/10/Fawdon-Focus-Spring-2013-final.pdf>).

In addition, some protestors made their feelings clear with regards to the consultation programme. For example, in December 2012, the national campaign group Coalition of Resistance organised a demonstration with a march to the civic centre. Some protestors then went on to stage a sit in at a Newcastle Council meeting that became known as the “storming of the stage”.

Undoubtedly “Let’s talk” served to some extent as a means to manage expectations of what could be delivered within funding and non-statutory service constraints, and as a means to highlight to the citizens that the controlling central government, not the controlled local authority, had determined the scale of the cuts.

Some of our data are suggestive of genuine NCC consultations, however. Examples of policy changes following consultation include the retention of the respite care budget for vulnerable adults following specific engagement with campaign groups, co-optation of citizens into helping to run libraries as an alternative to closure and a pump priming arts fund as a vehicle for encouraging greater private philanthropy. On those occasions, there appeared to be strong connections between the issues raised by local people through the new channels of communication and NCC policy decisions. “Let’s talk” enhanced transparency for NCC officials by clarifying the views and preferences of service users and residents. It also enhanced the transparency of Council decisions and actions for residents who became, if not decision-makers, advocates with clearly formalised channels of consultations and, in some cases, participation.

5.2 Spokes of the wheel

5.2.1 Defining outcomes. To act in the public interest, the planning element of corporate governance practices constitutes defining outcomes in terms of sustainable social, economic and environmental benefits, and determining the intervention necessary to optimise the achievement of intended outcomes (IFAC and CIPFA, 2014, p. 19, 21).

Under the Localism Act 2011, local authorities have more control over how they define their outcomes for non-statutory services, but the outcomes for statutory services are still controlled by the central government. They specify minimum service levels through centrally determined rules and regulations. In the context of reduced austerity budgets, most resources are consumed by statutory services. The local authority is left with control over outcomes that account for a smaller share of the resources.

At NCC, to define outcomes under austerity localism, the Leader of the City Council launched a Fairness Commission in July 2011:

For communities to thrive people must feel they are being treated fairly and have equal chances [. . .] Faced with the challenges of making hard decisions with shrinking resources, the leadership of the local authority has sought advice from a Fairness Commission. The approach has been to define some principles to improve decision making, and provide guidance. (Chris Brink, Vice Chancellor of Newcastle University and Chair of the Fairness Commission)

In January 2012, the local authority held a special cabinet meeting to debate the principles of fairness. It was attended by around 100 residents and some Commission members.

The planning work of the Fairness Commission helped to define outcomes, but not in isolation as was shaped by development of local authority priorities and public engagement and consultation through “Let’s talk” that in its first year involved over 8,000 residents in debates about the future of the city helping determine interventions.

NCC’s corporate governance practices exhibited innovation in defining outcomes based on overarching principles devised by a Fairness Commission. The Commission’s principles and guidelines engendered additional flexibility to adjust some of the policies through which the city was controlled and resulted in greater global transparency for processes of negotiation and mediation in which various interventions were determined.

5.2.2 Determining interventions. By scrapping the centralised performance management frameworks that imposed outcomes based on performance indicators, the Localism Act 2011 gave local authorities more control over interventions:

I think with the change to the Coalition government and their localism agenda, it’s almost like the central government is saying [. . .] Get rid of the bureaucracy and really talk about accountability to local people and about your own localism and your own priorities at your [local authority] level [. . .] (Performance Manager of a Functional Area)

However, local authorities are still controlled by the central government through funding constraints. For example, the level of revenue support grant from the central government largely determines the overall level of interventions that are possible, and specific grants are ring-fenced for particular activities. Other key sources of local authority funding, such as the National Non-Domestic Rates from businesses and Council Tax from private households, remain subject to central control, thereby limiting the local authorities’ ability to locally raise funding for specific interventions.

Nevertheless, local authorities now have more control over interventions within funding constraints. In determining interventions, NCC set out a three-year medium-term financial plan (2013-2016) and an annual budget (2013/2014) which became subject to extensive consultation. It received over 50,000 responses, underlining the serious interest of citizens in defining the public interest. The Full Council met in March 2013 and agreed its budget programme for 2013-2014. Full details were posted online.

The “Let’s talk” initiative was central to the planning of the three-year medium-term financial plan and setting of the annual budget. There was extensive consultation with local people around public sector spending cuts regarding how this might impact on local services and community engagement. In November 2012, proposals were published on the Council website in advance of the November Business Cabinet meeting during which the budget was scheduled to be approved for consultation. Those proposals did not go unnoticed: Demonstrations by citizens commenced in the following week. Adverts were placed in the local press in December 2012 and January 2013 informing stakeholders about these developments and emails were sent to residents, partners, voluntary and community sector organisations and other key stakeholders within the city, directing them to the budget website. Regular briefings took place with the local press in advance of and throughout the consultation period to raise awareness of the proposals and to encourage people to have their say. Stakeholders were encouraged to respond through a variety of media. Formal consultation closed in February 2013. A separate report was produced on what spending priorities the local authority had been able to change following consultation. For example, NCC reversed a proposal and protected respite care for vulnerable adults, they approved a pump prime funding pot for the arts and encouraged philanthropy and they co-opted

campaigners into the operational running of libraries. The report was published alongside the post-consultation budget ready for discussion and approval by Full Council in March 2013, for the start of the new financial year in April 2013.

The local authority's corporate governance practices therefore exhibit flexibility with regards to post-consultation shifts of budgets and adjustments to services. They facilitate global transparency through consultation, negotiation and mediation in determining interventions linking this management control element of corporate governance with the public interest regarding changes of spending priorities and management of expectations.

5.2.3 Leadership and capacity. The Localism Act 2011 provided more control for local authorities over leadership and capacity, as they are freed up from managing based on centralised performance management frameworks and centrally determined performance indicators. In particular, it extends the power of local authorities to "do anything that individuals generally may do" as long as that is not limited by some other Act.

However, NCC's capacity is restricted by funding constraints, which are controlled by the central government, and designated statutory roles and responsibilities supporting both central government top-down control of local authorities and local authority functional area bottom-up control of the local authority's corporate centre. For example, the statutory roles and responsibilities of the local authority's Chief Executive Officer, Chief Financial Officer and Monitoring Officer represent a centralised top-down control element. The local authority is legally obliged to maintain a balanced budget and the Chief Financial Officer discharges this statutory function. Additionally, the statutory requirements for the roles and responsibilities of the Director of Children's Services and the Director of Adult Services, whose functional areas are by far the largest, create a set of bottom-up constraints on the local authority's corporate leadership. In resolving its diverse responsibilities and obligations, the local authority's corporate governance practices seek to provide internal transparency with regards to understanding the budgets of each functional area and what it ought to be capable of achieving, and global transparency for the overall local authority budget, which must remain balanced. While the corporate centre finance function is responsible for repair of the overall budget, the operational directors must highlight concerns of statutory risks to their performance and discharge of their obligations.

In addition to stipulations on key leadership roles to ensure that the local authority acts within the law and uses its resources wisely, local authorities are also still controlled in terms of codes of conduct, constitution and committees that were in place pre-localism, and NCC has a nomination, remuneration and audit committee.

Nevertheless, at a strategic leadership level, the Localism Act 2011 provided an opportunity to establish a "combined authority" with other local authorities in the region and thereby seek provision for a further transfer of powers that would result in an additional devolution of authority from the UK's central government. This was a new flexibility to enter into inter-organisational arrangements and enabled framing of issues in relation to the combined authority rather than just the local authority adding further transparency to the workings of social and economic processes and their outcomes.

5.2.4 Managing risks and performance. The Localism Act 2011 means local authorities no longer face detailed central government performance management systems and performance audits, but they have to achieve a balanced budget. In turn, the local authority corporate centre passed responsibility for performance measurement to the functional areas. The functional areas of Children's Services and Adult and Community Services tailored their own performance measures using outcome-based accountability. It allows them to plan, measure and report those indicators that help them manage risks and performance in their localised task environment. Used in this way, outcome-based accountability qualifies

as an enabling management control system because it enhances local and global transparency and facilitates repair.

Unlike in the private sector management control studies, however, where enabling systems were designed by the head office for operational units (Ahrens and Chapman, 2004) or in collaboration between central and local units (Jorgensen and Messner, 2010), in our example, the design of the system itself became an important element of the enabling nature of the corporate governance practices for the functional area. Performance management systems and targets are not now merely implemented for hierarchical accountability relationships between the corporate centre and business units, but instead, there is a local ownership of performance management, empowerment and operations, all of which informed strategy. For example, the local ownership of performance management meant an outcome-based accountability template was developed autonomously within the two main functional areas of Adult and Community Services and Children's Services.

Okay, what is the outcome you are trying to achieve, what are the measures that enable you to make a proxy assessment for how well you are performing against the outcome? What's the story behind the data? Who were the partners involved, what's working and what's not? And those are the kind of main questions [...] for measures where our performance might be good or where there is a financial pressure around a measure they are highlighted separately on an individual template for specific consideration. (Functional Area Performance Manager)

In such ways, the functional areas developed and managed their own key performance indicators and were empowered to determine which aspects of their operations should be reported to the corporate centre.

However, the removal of the central government's performance measurement frameworks from the system design also gave rise to risks for policy delivery that were highlighted by the Audit Committee on their risk registers. For example, the reduced visibility of functional area activities increased the risk of those activities not following municipal policies.

[...] central government targets [...] provided some sort of driver to make sure there was, what we call, a golden thread through all the decision making. With that process and external reporting being taken away, some of the government's priorities are easy targets for cuts [...] So, from my point of view, I think for governance [...] they (central government) gave us more or less a framework to work within, and now that's not there. I do feel that's a risk [...] possibly decisions can be made by functional areas, which are not in accordance with [...] what the corporate policy is. (Chief accountant)

Additional risk can also arise from the cut back of corporate centre back-office functions to protect the funding of front-line service delivery.

The back office functions are [...] the likes of [governance, finance, human resources and legal advice]. Frontline guys will have to start to pick up some of that work, or [...] or you are going to have to start buying that in [...] IT, for example, is an enabler, but it's always cut first [...] External IT professionals [...] some of these guys charge a grand [one thousand pounds sterling] a day [...] Ironically, we will probably need back office functions more in the Coalition era than before [...] (Head of Information and Governance)

In the context of such changes, the usefulness of risk management to protect back-office enablers to support functional area front-line services is becoming clearer.

In the area of risk and performance management, the local authority's management control takes into account local performance management and how it can enable outcomes to be met by functional areas. However, they also identify potentially unintended consequences and risks to service delivery, and how they can be managed. The

management controls described in this subsection are used flexibly by different functional areas, but counterbalanced by the Audit Committee's monitoring of risks to policy delivery. Such monitoring practices add to the internal transparency of local authority management control and institutionalise a capability of repair.

5.2.5 Accountability and transparency. The ultimate concern of public sector corporate governance remains serving the interests of external stakeholders, and in particular citizens (IFAC and CIPFA, 2014, p. 6). Under the Localism Act 2011, the central government abolished performance audit for local authorities with the scrapping of the Audit Commission, thus weakening formal accountability. Financial audit and value-for-money studies were transferred to the National Audit Office. On the whole, the UK central government has to a considerable extent passed on the responsibility to protect the interests of citizens through performance management arrangements to the local authorities themselves.

The external auditor carrying out NCC's audit gave an unqualified opinion on the statement of accounts for 2012/2013, stating that they were in accordance with International Financial Reporting Standards and the Code of Practice on Local Authority Accounting in the UK, and also gave an unqualified opinion on the value for money conclusion, annual governance statement and whole of government accounts and audit certificate. They commented on financial reporting and management control and gave consideration to the local authority's financial resilience owing to the austerity measures. No detailed performance audit was undertaken by the external auditor, but instead, a transparency agenda demands that all local authority transactions over a prescribed value be published online.

At NCC, to assist with accountability, the local authority has an independent internal control function and an Audit Committee that is independent of the governing body, executive and scrutiny functions. It has its own terms of reference, the Chair is independent and there are also two independent members. It submits an Annual Report to the Full Council on its work. The internal control systems provide the groundwork for the external auditor.

Global transparency is an important principle of the accountability dimension of the local authority's corporate governance. It enables stakeholders to share specific understandings of the local authority's strategies and corporate governance and assess the extent to which specific objectives have been met. The central government's transparency agenda further attempts to promote bottom-up accountability practices such as from citizen armchair auditors.

6. Discussion and conclusions

The Coalition government's localism agenda, and subsequent Localism Act 2011, was expected to change fundamentally the context for local authority corporate governance and management control in English local authorities. Such devolution to local authorities is a trend being considered in many countries. Given the significant changes that can result from this trend, we contend that research in this area is both timely and important to the effective operation of local authorities in many countries. This is even more so in conditions of austerity, as localism combined with austerity can constitute a powerful external source of change. In particular, local authorities find themselves in a position of having to mete out cuts that they were not planning to make.

However, we suggest that decentralisation can potentially give rise to enabling corporate governance practices. By this we mean that it is possible for local authorities to use their corporate governance competencies to pursue their locally determined political priorities

with specific immediate perceived benefits for the citizenry, by emphasising the transparency, flexibility and repair of policy planning and delivery. For example, local authorities have undertaken their own significant consultations with stakeholders to determine where resources should be allocated, for the purposes of expectations management, as a means to visibly challenge central government funding, and in attempts at defining and pursuing the public interest of their particular community.

By using the IFAC and CIPFA (2014) framework, our case study of NCC sought to flesh out some of the ways in which management control practices can facilitate local authority corporate governance in the pursuit of the public interest. In this paper, we maintain that even after the shift from centralism to localism, the relationship between the central government and the local government in England has remained predominantly one between a controlling and a controlled government. We have shown where in the shift from centralism to localism specifically enabling elements of control have been added to the predominantly coercive control by the central government (see [Table I](#)).

Overall coercive control is still dominant under localism and exists across all parts of the “hub and spokes” framework of corporate governance and management control (IFAC and CIPFA, 2014), although there has been a shift to relatively more enabling control through which locally defined versions of the public interest might be pursued. This is the novelty in which our study was interested and the examples in the paper concentrated on these. We conclude that local authorities can be subject to coercive controls in some respects and pursue the public interest with the aid of enabling corporate governance in others.

The public interest is an amorphous concept whose applicability in corporate governance practice needs careful substantiation through fieldwork. IFAC and CIPFA (2014) highlighted the importance of integrity, ethics and law and openness and comprehensive stakeholder engagement as being the central hub of public interest. In our view, at NCC, the work of the fairness commission, the “Let’s talk” initiative, extensive use of online resources for information and communication and other efforts at engaging various stakeholders in conversations about how to develop different visions for the city and set spending priorities in the context of austerity were complex public deliberation strategies that attempted to define and make operational a locally defined notion of the public interest. For example, through these complex strategies, NCC did more than legitimate cuts and pass back the blame onto the central government. Rather, NCC proactively engaged with stakeholders and made certain policy changes, service adaptations and budget adjustments, for example, with regards to respite care budgets, co-optation of citizens in delivery of library services and pump prime funding and philanthropy for the arts.

The changes to the corporate governance hub elements of integrity, ethics and the law and openness and stakeholder engagement were supported by a number of specific changes to the management control practices of the local authority. Functional areas were given the flexibility to set their own agenda for defining outcomes, determining interventions, risk and performance management and leadership and capacity from the bottom up. The local authority’s corporate centre retained important elements of centralised control, in particular for overall budget totals. It also, however, used its powers to facilitate repair, for example, by making available contingency funds to support politically desirable activities of underfunded functional areas.

Looking at the management control practices underpinning the local authority’s corporate governance, we therefore suggest that a central theoretical finding from this paper is that unlike in the private sector management control studies, where enabling systems were designed by the head office for operational units ([Ahrens and Chapman, 2004](#)), in collaboration between central and local units ([Jorgensen and Messner, 2010](#)) and where performance

measurement systems can be adapted at the local level during development and experimentation (Wouters and Wilderom, 2008; Wouters and Roijmans, 2011), in our example, the more bottom-up “comprehensive” design of the system itself became an important element of the enabling nature of the corporate governance practices for the functional area. Performance management systems and targets were not merely implemented for hierarchical accountability relationships between the corporate centre and business units and/or adapted locally, but instead, there was local ownership of performance measurement, performance management, empowerment and operations, all of which informed strategy.

The paper also demonstrated how changes in management control systems gave rise to new corporate governance practices. For example, management control systems were used to engage individual citizens and service users through “Let’s talk” consultation processes in defining outcomes, budget participation meetings to help determine interventions and engagement with institutional stakeholders such as trade unions, chamber of commerce and the core cities group of local authorities to lobby central government on the fairness of funding settlements. This global transparency from management control systems was therefore not specific to NCC but institutionalised in corporate governance practices across the local government field. We call for further studies that can explain how such enabling practices of corporate governance can help improve specific strategic competencies to deliver public services, especially given the ongoing trend towards commercialisation.

Note

1. Note that Adler and Borys’ (1996) concepts of internal and global transparency are different from the concept of transparency in the IFAC and CIPFA (2014) framework and the UK Government’s transparency agenda. Whereas Adler and Borys are interested in how bureaucracy can create transparency by making available to workers information about the functioning of their various work processes and how they contribute to the organisational mission, IFAC and CIPFA (2014) are concerned with making data available to citizens to facilitate the definition of the public interest through public debate. A third notion of transparency underlies the UK Government’s transparency agenda. It requires that local authorities publish online all transactions over a stated amount so that interested citizens might act as “armchair auditors” who can scrutinise local authority spending.

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