

Mechanisms of Accountability in Local Government: An Exploratory Study

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Abstract

This exploratory, empirical study is an attempt to understand the perception of accountability within Victorian local government. Important governance developments have emerged in recent years, changing the context of public decision-making. It is timely to study public sector accountability in this changing context.

Data were collected from 78 Victorian municipalities. A survey instrument was distributed to councillors and managers, with survey statements eliciting participants' understanding of the operation of accountability. Using *factor analysis*, four factors were generated that revealed the items councillors and managers perceive to be the important elements of accountability.

Whilst respondents' views of accountability were generally in accordance with the literature, new aspects were discovered. For example, an individual's attitude towards accountability and managing the accountability relationship was shaped by their values. The literature has not previously explored this facet of individual values.

Keywords: Accountability, Local government, Personal values, Compliance, Stewardship

1. Introduction

Accountability is a complex and multi-faceted concept (Sinclair, 1995) that is made operational through relationships between individuals and organisations (Ebrahim 2003). While accountability may be difficult to define (Ebrahim, 2003; Goddard, 2005) there is a consensus that it involves a rendering of an account and therefore the provision of information. Underpinning the concept of accountability is the notion that one person is responsible to another, and is obliged to render an account of their decisions and actions to another party.

Barton (2006), in keeping with Gray and Jenkins (1986), is of the opinion that accountability is an obligation to present an account of and answer for the execution of responsibilities to those who entrusted those responsibilities. Accountability is thus established when an agent accepts resources and responsibilities entrusted by the principal.

With the adoption of the New Public Management (NPM) (Hood, 1995) a private-sector version of accountability has been imported into the public sector, resulting in a more managerial-style accountability. The "new" accountability has also been cast in terms of the principal/agent relationship, but in which the agent is accountable exclusively to the principal in terms of meeting the information demands of that party (Parker and Gould 1999). However, it is our contention that accountability is more than compliance. Historically, accountability has emphasised stewardship as well; it considered the interests of all relevant parties, not just those of the principal. Funnell (2001, 2003) argues that this has changed – that the focus of the "new" accountability is managerial, with a strong emphasis on compliance. Managerial accountability has replaced stewardship as the core of accountability.

To gain a better understanding of accountability in the modern context, we intend to explore its constituent elements. Using survey data, this paper examines the understanding of accountability held by councillors and

managers in Victorian local government. In the literature there is reference to a changing idea of accountability, and, in particular, that there are “aspects” of accountability. Our paper attempts to explore this issue.

In the next section is the literature dealing with the nature of accountability, including an examination of public versus private sector accountability and a shift towards a managerial focus. This will be followed by the research question and an explanation of the research method, and then the reporting of results. Finally, the implications of the research results will be discussed and the conclusions that can be drawn from this empirical study.

2. Literature Review

2.1 *The Nature of Accountability*

Glynn and Murphy (1996) argue that accountability is, broadly speaking, the process via which a person or group can be held to account for their conduct. However, the concept of accountability has numerous facets (Sinclair, 1995; Horton, 2006; Caron & Giaque, 2006) and is complex and not easy to define. The essence of accountability, argue Cutt and Murray (2000), has always been the obligation to render an account for a responsibility that has been conferred. Accountability according to Roberts and Scapens (1985) involves the giving and demanding of reasons for conduct and occurs in various social structures, such as within families, friendship groups, and within and between organisations.

Broadbent and Laughlin (2003) argue that there are, broadly-speaking, two aspects of accountability: public/political accountability that involves the public as principals and is concerned with issues of democracy and trust; and managerial accountability that is concerned with day-to-day operations of the organisation and can be equated with Stewart’s (1984) concepts of process, performance and program accountabilities. Broadbent and Laughlin (2003) argue that, under managerial accountability, the provision of detailed information is not directed to being more accountable to the public but rather it is an attempt by the principals (elected representatives) to control the agents (managers), and to legitimise past decisions and justify future ones. The provision of annual financial statements is an example of legitimising past decisions.

Foster (2000) argues that accountability can be achieved best by the use of contracts. This relies on the ability to reduce all accountability relationships to ones of obligation, where there is a principle/agent relationship. So long as the contract is clear then the obligations under the relationship are clear as are the information needs to monitor the performance of the contract. However, principal/agent relationships are complicated by information asymmetry and power differentials (Broadbent and Guthrie, 1992). It is argued that some relationships cannot be accurately defined by a contract and therefore, to define accountability in contractual terms limits our understanding of the concept. Kloot and Martin (2001) suggest that there are also social contracts that are important for accountability and which go beyond the legalistic approach suggested by Foster (2000).

The production of annual accounting and performance reports exemplifies a concern with the managerial aspect of accountability rather than public or political accountability. Collier (2005) questions the appropriateness of conventional accounting in providing information for public sector accountability. In effect, he is arguing that the provision of traditional accounting reports is only a part of what constitutes accountability. This is because accounting defines, and limits, the context in which subordinates must explain their actions to their managers. Funnell (2001), like Collier (2005), argues that financial accountability is not the totality of accountability.

2.2 *Public versus Private Sector Accountability*

With a significant argument regarding the parameters of accountability, Funnell (2003) argues that accountability is being weakened because of the encouragement of a concept of it that highlights accomplishments, progress and performance. Service delivery, according to Funnell, has been changed from a political activity to a technical issue, therefore placing greater emphasis on technical information such as accounting, budgeting, and performance measurement. Further, these predominantly quantitative measures provide information about efficient performance, which is related to the managerial aspect of accountability, rather than effective service delivery, which is related to the public/political aspect of accountability. The emphasis on efficient service delivery and quantitative information changes the nature of accountability, leading to greater control by the executive rather than increased scrutiny of it (Broadbent and Laughlin 2003).

In the public sector, accountability relationships are hierarchical involving principal and agent relationships. For example, elected councillors are agents for the citizens that elected them and local government managers are agents for the councillors. Rendering of account requires the agent to provide information about decisions and activities to the principal.

The principal/agent or accountor/accountee relationship is arguably easier to define in a commercial context where contractual relationships are common and understood. In the public sector, accountability relationships

appear to have become more contractual in nature (Funnell, 2001), thus shifting accountability within the public sector toward its private sector counterpart. However, accountability in the public sector is complicated by the greater number of accountability relationships such as those between elected officials and managers, between elected officials and citizens and between citizens and managers. Patton (1992) states public sector organisations are not judged by the profits they make or the dividends they declare but rather on the policies that are developed and the extent to which stated objectives have been achieved, hence further differentiating accountability in the two sectors. The argument outlined by Patton equates with public/political accountability discussed by Broadbent and Laughlin (2003).

The changing nature of accountability is also discussed by Taylor and Rosair (2000), who note that it has broadened from stewardship to managerial accountability. They conclude that the predominance of one aspect of accountability depends upon the intended accountees; that is, the participating parties within the structure of government and the public. The results reported by Taylor and Rosair indicate that the main purpose of external reporting is linked to meeting accountability demands of the participating parties and has little to do with providing accountability to those stakeholders who are not local government employees or councillors. To the extent that this is happening – that the public is not the focus of accountability – has important implications for local government; indeed all levels of government. Public accountability is a vital component of the Australian system of public life.

2.3 From a Public to a Managerial Focus on Accountability

Parker and Gould (1999) argue that the move toward a commercial orientation has changed the understanding of accountability in the public sector. On the one hand private sector ideology, with its production values, is a threat to traditional accountability; but on the other hand, it has broadened the concept of accountability to include performance. In the public sector there is now an increasing emphasis on planning, budgeting and service delivery (Goddard, 2005); and hence a lessening of the differences between the public and private sectors (Hood, 1995). This has, according to Broadbent and Laughlin (2003), meant a redefining of accountability from political accountability to managerial accountability. This expansion of the concept of accountability in the public sector has increased the need for managerial information. Cameron (2004) argues that the reporting of well-documented performance information is now fundamental to public sector accountability. This reinforces the perception that there has been a shift from public/political accountability toward managerial accountability.

A significant example of this shift is Victorian local government, which has undergone numerous changes in recent years (Kloot and Martin, 2001). The previous Victorian state government, the Kennett Liberal National Coalition government of 1992 – 1999, introduced compulsory competitive tendering (CCT), with a strong emphasis on performance measurement and efficiency. CCT required that all work undertaken by local government be subject to tender. This involved local government work teams having to compete with external suppliers. The Kennett government also made a very substantial change to local government in Victoria by reducing the number of municipalities from 210 to 78.

Accrual accounting was formalised within Victorian local government with the introduction of the Australian Accounting Standard 27 (AAS 27) in June 1996, and from that time on local government accounting was on a business footing. This standard mandated the use of accrual accounting and outlined financial reporting for Australian local government. Further, local government is subject to the control of the State government, whose legislation gives it life and responsibilities (Kloot and Martin, 2001). Local government is controlled by State government and is therefore accountable to it. This illustrates the argument of Taylor and Rosair (2000), and Parker and Gould (1999). Reduction in the number of municipalities and the introduction of CCT illustrate the power of the state government over local government.

According to Kloot and Martin local government managers need to balance the requirements of accountability to the community and to State Governments. They also argue that accountability has become more centred on financial outcomes. This is consistent with the findings of Taylor and Rosair (2000). However, Kloot and Martin conclude that local governments in Australia have emphasised accountability to ratepayers and the wider public, and that local government managers are capable of meeting the demands of multiple accountabilities. Their finding appears to contradict the argument put forward by Parker and Gould (1999). However, the information being provided is predominantly of a managerial nature rather than that required for public accountability.

Cameron (2004) points out that Key Performance Indicators (KPIs) are largely driven by the budgetary process and linked to the allocation of resources rather than the attainment of objectives, therefore emphasising managerial rather than political accountability. In addition he suggests that the link to the budget explains the emphasis on efficiency rather than effectiveness. He goes on to say that many KPIs are reported by agencies to

meet compliance requirements rather than to report on the effectiveness of programs. Cameron states that the problem is also due to the inherent constraints of the annual reporting cycle.

The position taken by Cameron and supported by Parker and Gould, that the flow of multi-dimensional information is restricted by the annual reporting cycle, adds to the impression that accountability is assumed to be found predominantly within public sector accounting reports and is confined to the hierarchy of public sector entities. It therefore excludes the broader community. Under the Westminster system of government the executive is responsible for the development, implementation and performance of policy. If problems arise the minister is considered to be responsible. Therefore, according to Fountain (1991) the electorate has the right to be informed about the actions and expenditures of the executive and legislative arms of government. Patton (1992) argues that unlike investors' access to capital markets associated with private enterprises, the public does not have the freedom to choose between alternative entities in the public sector, other than another political party via the ballot box. Thus, Patton contends that it is even more important for stakeholders to be able to make informed judgements about the performance of public sector entities against stated objectives and the stewardship of public monies. Therefore performance reporting as well as traditional compliance reporting by the public sector is important to the accountability relationship with external stakeholders.

This apparent phenomenon of there being a move away from public accountability toward managerial accountability is a strong indication that there are different aspects to the understanding of accountability.

3. The Research Question

The literature has described the characteristics of accountability and some of the related issues in the contemporary public sector. Private sector influence may have changed the concept of accountability in the public sector – certainly the traditional understanding of accountability may not encompass the changes in public sector administration in general and local government in particular. The literature also suggests that accountability is predominantly within (i.e. internal to) public sector organizations and that there is little accountability between public sector entities and the broader community (Parker and Gould, 1999).

Changes in accountability suggest that there have also been changes in the operation of accountability mechanisms such as professional codes, accounting standards and contracts. However, the understanding of accountability held by people working in local government, particularly elected councillors, and managers, has not been researched. As Kloot and Martin (2001) note, much of the accountability literature is normative and very little empirical research has been undertaken that examines the understanding of accountability held by managers and councillors. Hence, the research question of our paper is:

What is the concept of accountability held by councillors and managers? Is it confined to internal accountability or does it embrace personal values, including a concern for the “greater good”?

4. Research Method

To enable this question to be answered data was collected by survey. The survey instrument was developed on the basis of the issues raised in the literature. The questionnaire was submitted to a number of academics, the Victorian Local Government Association (VLGA) and the Municipal Association of Victoria (MAV) for comments on the appropriateness of the statements and the format of the instrument. Minor adjustments were made as a result of this consultation.

Victorian local government was selected as the environment in which to conduct the research as it is characterised by diversity: in geographic size and location, in population size, in its ability to raise revenue, and in the size and composition of its expenditure. Also, there have been significant developments in Victorian local government, such as emphasis on efficiency, contractual relationships, and performance measurement. Many of these changes were imposed by the previous State Government, and have been continued by the current State Government.

Each of Victoria's 78 municipalities was sent two envelopes containing 10 survey instruments and 10 pre-paid return envelopes – one set was for councillors, the other for managers. Most municipalities have fewer than 10 councillors and also fewer than 10 managers – the number in each category varied across municipalities. A covering letter accompanied each set, one addressed to the mayor, the other to the chief executive officer.

330 useable survey instruments were returned representing a response rate of 21 per cent. There were 142 responses from metropolitan councils and 181 responses from regional councils (and seven unidentified with respect to location). The respondents were divided into 113 councillors and 212 managers (such as chief financial officers and department heads) – five respondents did not indicate the category they belonged to.

Twelve of the survey instrument statements were selected, as follows:

- 1) Accountability can only apply in terms of probity.
- 2) At the centre of the accountability relationship is stewardship.
- 3) Accountability goes beyond compliance.
- 4) Accountability can only be guaranteed by a contractual relationship.
- 5) The Local Government Act makes councillors accountable only to the State Government.
- 6) The degree of accountability will depend upon the relative power of the stakeholders.
- 7) Compulsory reporting to stakeholders will enhance accountability.
- 8) Access to information by all stakeholders is essential for accountability.
- 9) Public sector managers can have conflicting accountability relationships.
- 10) Personal values are the only guarantee of accountability.
- 11) Performance data cannot be used to hold managers accountable as it cannot capture every aspect of performance.
- 12) Councillors do not understand the performance data presented to them by management.

Statements were selected on the basis of those which address directly the research question. These statements were subjected to *Factor analysis*. The number of factors to be identified was elected to be four. Under the default setting *SPSS* identified six factors, but this number is too large given that there are 12 statements – it would result in an average of only two variables per factor.

5. Analysis of Results

As indicated in Table 1, the four factors explain a cumulative 51 per cent of variation. Table 2 reveals that there is minor evidence of cross-loadings in the delineation of factors. The first factor is made up of four attitudinal variables: *Councillors do not understand the performance data presented to them by management* (.667); *Access to information by all stakeholders is essential for accountability* (.632); *Compulsory reporting to stakeholders will enhance accountability* (.516); *Performance data cannot be used to hold managers accountable as it cannot capture every aspect of performance* (.483).

This first factor, which may be termed, **information**, reveals that access to information that is understandable is important to accountability. The loadings indicate that there is an emphasis on access and understanding. Intuitively, access to understandable information is vital to accountability.

The second factor is made up of three attitudinal variables, and can be termed, **values**:

Accountability can only apply in terms of probity (.635); *Personal values are the only guarantee of accountability* (.617); *The degree of accountability will depend upon the relative power of the stakeholders* (.567). The highest loadings are on the variables related to probity and personal values, thus emphasising the importance placed by respondents on values in accountability. An individual's response to the use of power in an accountability relationship will depend primarily upon the values of the individual.

The third factor, which can be termed, **enforcement**, is made up of two attitudinal variables: *The Local Government Act makes councillors accountable only to the State Government* (.818); and *Accountability can only be guaranteed by a contractual relationship* (.667). This factor indicates that accountability is underscored by formal legal requirements and is in contrast to the second factor in that it recognises the notion of legality, as distinct from honesty or personal values.

The fourth factor, termed **relationships**, is made up of three attitudinal variables:

Accountability goes beyond compliance (.803); *At the centre of the accountability relationship is stewardship* (.635); *Public sector managers can have conflicting accountability relationships* (.460). This factor incorporates the idea that accountability relationships can be difficult to manage – indicated by the variable, *managers can have conflicting accountability relationships*. Also that accountability is not just a matter of compliance but is based on relationships between the various stakeholders.

6. Discussion and Conclusions

Accountability is certainly a multi-faceted concept (Sinclair, 1995). The understanding of accountability held by councillors and managers, as revealed by our research results, reflects this. However, our results do not support

the contention of a number of authors that accountability is a complex concept. This is evident from noting the four factors identified as explaining it:

- 1) information
- 2) values
- 3) enforcement
- 4) relationships

Examination of these four factors reveals, essentially, three aspects of accountability: the need for and value of information, honest values, and legal enforcement. To this extent the accountability relationship is complex: values, on the one hand, are important, but on the other hand it requires enforcement. On the one hand accountability is perceived to require honest participation, involving an exchange of information. On the other hand, it is understood to involve legal compliance. There is, then, an interesting juxtaposition: the importance of values versus the need for enforcement. Our findings have, therefore, verified the inferences of Funnell (2001, 2003), Broadbent and Laughlin (2003), Taylor and Rosair (2000), Parker and Gould (1999).

We speculate that the revealed interest in stewardship, in spite of an emphasis on compliance, reflects the continuity of a past concept of accountability that valued responsibility for the greater good. Concern with internal accountability places limits on a concern for the greater good, but our findings permit us to note that it has not disappeared entirely. Minor evidence of cross-loadings in our results leads us to be cautious in their interpretation, but does not invalidate the indicative power of the findings of this exploratory research.

A possible complexity of accountability is indicated by the apparent difficulty of its management. The essence of this difficulty is the hierarchical structure of the accountability relationship – which effectively diminishes accountability to the broader community. This difficulty of management is revealed in the responses, “public sector managers can have conflicting accountability relationships” and “performance data cannot be used to hold managers accountable as it cannot capture every aspect of performance”. It is also a consequence of the shift towards managerial accountability, which, as already stated (and supported by Broadbent and Laughlin (2003), Parker and Gould (1999), Funnell (2001, 2003)), ignores the broader community.

Finally this research suggests that personal values are an important aspect of accountability. This finding is unexpected, given that the extant literature pays little attention to individual values. Irrespective of legal requirements or access to information, the operation of accountability is perceived to be dependent upon an individual’s values. In other words, the degree to which accountability goes beyond minimum requirements is perceived to depend upon personal values. Values will either assist or impede the operation of the accountability relationship. Personal values of “openness”, co-operation, service, will enhance the relationship, whereas values of personal gain, emphasis upon individual ambition, manipulation of information for the enhancement of power, will impede the relationship. The extent to which accountability depends upon enforcement is also influenced by an individual’s values. However, to date, the role of an individual’s values has not been researched extensively. Clearly, this is an area that needs to be more fully explored.

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Table 1. Eigenvalues and Variance Explained

Component	Total Variance Explained								
	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.967	16.395	16.395	1.967	16.395	16.395	1.672	13.932	13.932
2	1.711	14.260	30.655	1.711	14.260	30.655	1.625	13.540	27.471
3	1.334	11.113	41.768	1.334	11.113	41.768	1.441	12.006	39.478
4	1.113	9.273	51.041	1.113	9.273	51.041	1.388	11.564	51.041
5	1.007	8.396	59.437						
6	.943	7.861	67.298						
7	.825	6.874	74.172						
8	.782	6.517	80.689						
9	.637	5.311	85.999						
10	.618	5.151	91.151						
11	.562	4.685	95.836						
12	.500	4.164	100.000						

Extraction Method: Principal Component Analysis.

Table 2. Rotated Component Matrix

Statement	Component			
	1	2	3	4
1	-.015	.635	.349	-.034
2	-.210	.244	.028	.635
3	-.061	-.189	-.141	.803
4	-.030	.329	.667	-.082
5	.110	-.066	.818	.041
6	-.018	.567	.075	.135
7	-.516	.427	.070	.086
8	-.632	.215	.095	.181
9	.339	.121	.113	.460
10	.388	.617	-.313	-.062
11	.483	.154	.217	.234
12	.667	.214	.077	-.038

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.