Maintaining market principles: Government auditors, PPP equity sales and hegemony

Stewart Smyth a,*, Dexter Whitfield b, c

a Sheffield University Management School, UK
b European Services Strategy Unit, Ireland
c University of Adelaide, Australia

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A B S T R A C T

The UK’s government auditors, the National Audit Office (NAO), play a central role in the accountability relations surrounding government expenditure. Commonly portrayed as being independent, they carry out performance audits assessing value for money. To date, the emerging market for PPP equity transactions has attracted little attention. This paper explores that emerging market through a Gramscian framework utilising the concepts of ‘common sense’ and ‘good sense’, focusing on a dialogical analysis of a NAO report on the topic.

In the process, the paper contributes to the debate about the nature and role of government auditors.

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1. Introduction

The UK’s government auditors, the National Audit Office (NAO), play a central role in the accountability relations surrounding government expenditure. Commonly perceived as being independent, the main framing of their performance auditing (as opposed to statutory annual financial audit) work since the 1980s has been the value for money audit, focused on economy, efficiency and effectiveness (Broadbent & Laughlin, 2003; Funnell, 2011). In practice, this framing has led to a focus on saving money for the public purse. As the Auditor and Comptroller General has stated, the National Audit Office (NAO) sees their role in “undertaking value for money (VFM) audit [as] contributing to more cost-effective government” (Morse, 2010, p. 323).

Over the same period, the adoption of New Public Management (NPM) (Lovell, 1996; Power, 1997) techniques and policies has included the Private Finance Initiative (PFI) (Broadbent & Laughlin, 1999) where new public infrastructure assets are designed, built, financed and operated by a private company (known as an Special Purpose Company, SPC). The newly constructed asset (school, hospital, etc.) is then leased to the public authority over a specified time period (usually 25–30 years). While there is an established, if not exhaustive, literature on accounting related issues in PFI/PPPs1 (see Andon (2012) for a comprehensive review), to date there has been little attention paid to the returns (profits) made through the sale

1 In the main, this rest of this paper uses the acronym PPP to describe all generations of the policy, as it is the most comprehensive and encompassing term available.
of equity in SPCs by private sector partners. In recent years, some studies have emerged claiming excessive profit making through this route (HM Treasury, 2012; Whitfield, 2010). In response to these claims, the National Audit Office (NAO) published a report – *Equity investment in privately finance projects* (NAO, 2012a) – based on their investigation into the returns being made in the emergent PPP equity market. Significantly, this report did not adopt a value for money framing, but instead developed a model that sought to explain and justify the return levels reported from the equity sales.

Given this background, we seek to address the question, what do the contents of the NAO (2012a) report tell us about the nature and role of government auditors?

There are a limited number of theoretical or empirical studies addressing this question (one exception being a special issue of Critical Perspectives on Accounting in 2003). Beyond the functionalist, 'common sense' (Gramsci, 1971) view of government auditors as independent fulfilling a statutory role, Radcliffe (2008, 2011) argues that public auditors utilise 'open secrets' to take account of the views of potential audiences and acceptable policy discourses in their reporting. While there are elements of an open secret at work in the NAO report [i.e., that PPP remains an unpopular policy among the UK population and lacks both theoretical and empirical evidence to support its continued pursuance (Hellowell & Pollock, 2009)], we argue that the report represents a different approach that is best understood within a Gramscian framework of hegemony coupled with a dialogical understanding of language (Bakhtin, 1981). We draw on Gramsci’s distinction between ‘common sense’ and ‘good sense’ ideas and integrate this with monological and dialogical understandings of utterances on ‘returns’ in the report (Bakhtin, 1981: Smyth, 2012). This leads us to conclude that in the case of this report, the NAO has become an active participant in maintaining the hegemony of competitive market principles as the basis of resource allocation for public infrastructure projects.

This paper is structured as follows: Section 2 discusses what we know about the nature and role of government auditors by utilising Gramsci’s work on hegemony, political and civil society. Further, the section introduces the ‘common/good sense’ distinction from Gramsci’s writings and integrates this with the work of Bakhtin (1981) on centripetal and centrifugal forces in a dialogical understanding of language. Section 3 extends and applies this theoretical framing to PPP equity transactions by explicating a heteroglossic account. Section 4 explains the data collection and analysis techniques employed, before Section 5 presents the findings of our common/good sense analysis. Section 6 of the paper includes a discussion of the findings and concludes with a short discussion referring back to the original research question concerning the nature and role of government auditors.

### 2. Government auditors, hegemony and dialogics

There has been little work that attempts to theorise the social position and role of government auditors (Radcliffe, 2008, 2011). There is a common sense view that government auditors are independent of the world of politics and policy, are constrained by statute and custom to focus on financial and performance audit rather than policy objectives (Funnell, 2011). This view of government auditors’ independence is deeply ingrained in the literature. For example, Normanton argues that “an independent state audit … is probably the citizen’s best defence against misuse (using the word in its broadest sense) of money taken from his pocket” (Normanton, 1966, p. 410). Funnell quotes Pois, who concludes that as government auditors’ independence is so widely accepted, there is little point in academics gathering arguments to support the proposition (Funnell, 2011, p. 716).

An alternative view has developed through the era of new public management (NPM) and is encapsulated in Michael Power’s work on the *Audit Explosion* (Power, 1994). Power (1994) argues that audit symbolises independent validation, rationality, visibility and the promise of control, to which Lovell points out that “these might be comforting images, but they are argued to be mere chimeras” (Lovell, 1996, p. 267). Power later develops the idea that “audit represents a form of pragmatic ‘muddling through’” (Power, 1997, pp. 143–144). English (2003) illustrates an alternative impact of NPM on the state audit function in Victoria, Australia, where the auditor-general’s power to conduct audits was transferred to a statutory body, allowing for competition to develop with private audit firms through a purchaser/provider split. Despite the claims that this move was justified on economic grounds, English concludes that policy was politically motivated. 2

In the UK, government audit functions have been portrayed as being involved with a ‘struggle for supremacy’ between different audit agencies and these agencies and central government (Bowerman, Humphrey, & Owen, 2003), or having a legitimising role for government policies (Broadbent & Laughlin, 2003). Significantly, for this paper, Broadbent and Laughlin’s (2003) work also focuses on the role of the NAO in relation to the early development and implementation of the PFI/PPP policy. Specifically, they argue that “that the NAO acts as such a legitimator in the context of their published advice on the calculation of value for money in PFI projects” (Broadbent & Laughlin, 2003, p. 30). The arguments in this paper follow a similar pattern to those of Broadbent and Laughlin (2003), where the NAO appear to adopt a policy analysis position that seeks to legitimate an existing government policy. In our case, there is an additional dimension that locates this legitimization role in broader hegemonic processes supporting the superiority of competitive markets as a resource allocator for public infrastructure investment purposes.

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2 Significantly, at the following state election in 1999, a new government was elected and immediately reversed the NPM-inspired reforms and actually enhanced the role of the Victoria Auditor-General’s Office (English, 2003, p. 71).
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