

Which are the difficulties for the application of value for money auditing in Spanish local government? Proposals for improvement

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ABSTRACT

This paper is concerned with the development of value for money audit in Spanish local government. It analyses the meaning of value for money and its audit in Spain and concludes that it aligns with those used in other countries, most notably the United Kingdom. From primary research, the paper then considers the current application of value for money audit by the statutory auditors of Spanish local government and their opinions about the benefits of and approaches to its further development. Finally the paper points out the requirements for implementing an enhanced version of value for money audit in Spain.

Key words: Spanish local government, value for money audit, survey analysis.

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1. Introduction

Value for money (VFM) audit has become an audit topic of increasing importance, in many countries, over the past thirty years or so. In the UK, the Audit Commission was created, in 1983, with responsibility for the audit of local authorities (and subsequently for the NHS) although the actual audit examinations were carried out by auditors appointed by the Audit Commission who may be private firms or the Commission's own operational arm termed District Audit (Latham and Prowle, 2012). However, at the time of writing the UK Coalition Government has indicated its intention to abolish the Audit Commission. Similarly, in other parts of the UK public sector the National Audit Office (NAO) has been active in promoting improved VFM through its audit activities across the public sector. Thus VFM audit in the UK public sector is wide ranging and, covers a range of organisations including: local government (Audit Commission), central government and government agencies (National Audit Office) and the National Health Service (Audit Commission).

On its creation, the Audit Commission was given an expanding role in promoting VFM. The Audit Commission's Code of Audit Practice (the Code) requires appointed auditors to issue a conclusion on whether the audited body has put in place proper arrangements to secure the three aspects of VFM namely: economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

This trend towards VFM audit is not confined to the UK but has a strong international dimension. Writing in the International Journal of Government Auditing, one commentator (Khemakhe, 2001, p. 6) states that:

In recent years, the concept of auditing has evolved within the context of rapidly changing political/economic conditions and expectations about the proper role of government and public management. Supreme audit institutions have seen their role change and diversify to include financial audits and compliance audits, performance audits and value-for-money audits, as well as comprehensive audits.

This paper concerns the development of VFM audit in Spain and, in particular the local government sector. Other works in this line of research are from Brusca (1997) or Bastida and Guillamón (2009).

The paper is set out as follows:

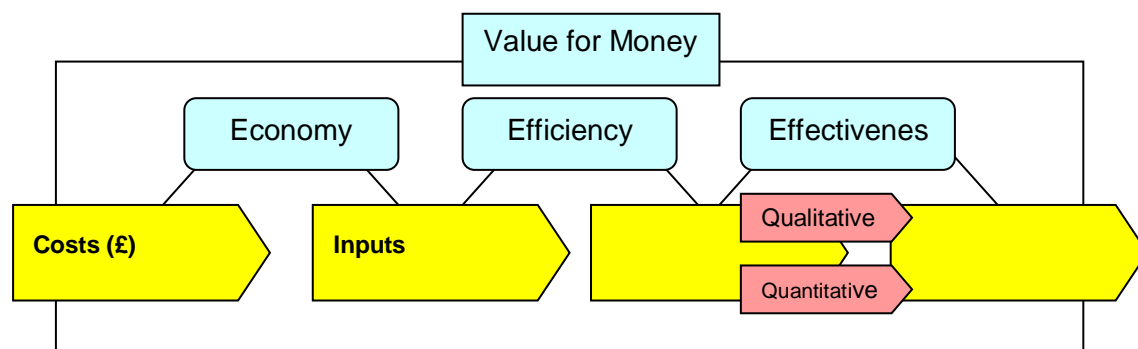
- The nature of VFM and VFM audit
- Description of the research
- Public and local government audit in Spain and the current emphasis on VFM audit
- Developing VFM audit in OCEX
- Requirements for developing a VFM audit approach in Spain
- Conclusions

2. The nature of VFM and VFM audit

VFM is a term used to assess whether or not a public organisation has obtained the maximum benefit from the goods and services it both acquires and provides, within the resources available to it. VFM not only measures the cost of goods and services, but also takes account

of the mix of quality, cost, resource use, fitness for purpose, timeliness, and convenience to judge whether or not, together, they constitute good value. VFM is essentially concerned with the relationships between: costs, inputs, outputs and outcomes of public services which are illustrated in the diagram (Audit Commission) below in terms of the 3 Es - economy, efficiency and effectiveness-.

Figure 1



- Economy – this concerns the costs of acquiring the resource inputs needed to deliver public services. Improvements in economy would therefore be achieved by reducing the unit cost of acquiring these resources with no negative impact on the standards of service received.
- Efficiency – efficiency is basically the ratio of resource inputs to service outputs. Thus improved efficiency could involve delivering the same level of service for less units of resource or a greater level of services for the same units of resource.
- Effectiveness – this is concerned with the relationship between (intermediate) service outputs and (final) service outcomes. The higher the ratio of outcomes to effectiveness, the higher the level of effectiveness.

VFM is a very important concept in public services and a much used term but it has some interpretations different to the above which often cause confusion. Also, some elements of VFM may be subjective, difficult to measure, intangible and/or misunderstood. Judgement is

therefore often required when considering whether VFM has been satisfactorily achieved or not. Thus overall, VFM is possibly best seen as a concept which requires interpretation and judgement rather than a set of performance measures (Prowle, 2010).

In any country, including Spain, local government encompasses a set of functions that are characterized by their complexity and conditioned by a dynamic environment which is affected by multiple factors. For this reason, it is not easy to collect in a single set of variables all the aspects of its activity which may be of interest to users or stakeholders. Thus the application of VFM and VFM audit is challenging.

The definition of VFM in Spain largely aligns to that used in the UK and other countries as shown below.

- In Spain, document No. 26 of AECA (Spanish Association of Accounting and Business Administration, 2002) points to the economy, efficiency, effectiveness, equity, excellence, environment and sustainable development as key factors or fundamental elements to evaluate public management. Among all of them, AECA considered economy, effectiveness, efficiency and excellence as the most important factors, being the ones posing greater possibilities of evaluation in practice. According to that document, excellence refers to the level of quality of services, both from an objective point of view, concerning the conditions for the provision of the service, and from the subjective, concerning the way in which citizens perceive that level of quality. AECA (1997) also established that the degree of efficiency of performance is given by the relationship between the goods and services consumed and goods or services produced or, ultimately, for services rendered (outputs) in relation to the resources used for this purpose (inputs).
- The Auditing Practices Committee (1990) defines effectiveness as the degree with which an organization achieves the objectives or purposes stated, i.e. compare the results

actually obtained with those provided for, regardless of the means used. In this regard, there is a border between the output itself - the production of public service - and the final result or outcome of the policy in question. In turn, economy is related to purchases made by the entity. The Auditing Practices Committee (1990) also defines it as the terms and conditions under which an organization takes human and material resources. Thus, for an operation to be economic, the acquisition of resources must be in a timely fashion, in the proper amount, with an acceptable quality and at the lowest possible cost. In addition, the search for the lowest cost should not be at the expense of the quality of the service, in accordance with acceptable standards (INTOSAI, 1995).

The variables discussed above are inter-related and should be considered as a whole. In this sense, the aspects referred can be synthesized into the Anglo-Saxon concept of value for money discussed earlier. However, from the research outlined later, a different interpretation of it has been identified in Spain, being the achievement of a balance in the triangle of cost-performance-citizen expectation. To achieve such a balance, local government should be able to identify the relationship between the resources invested and the results generated, in terms of satisfaction of needs and performance. Against the desirable balance in the aforementioned triangle, the current economic context shows an approach based on the costs at the expense of levels of performance, producing budget cuts without knowing the effect they will have on the development of services.

VFM audits are non-financial audits to measure the effectiveness, economy and efficiency of government spending. VFM audits can be undertaken by both internal auditors and statutory external auditors and the two sets of auditors will generally coordinate their VFM work in the same way as they would with financial and probity audit. There are, however, different approaches to undertaking VFM audit including the evaluation of organizational systems

designed to support the achievement of VFM and the conduct of in-depth reviews of VFM achievements in relation to specific services.

In public services such as local government, the level of VFM achieved can be influenced both by the policies adopted and/or the implementation of those policies. In the UK, the remits of the NAO and the Public Accounts Committee do not allow them to question the policy itself and so VFM reports only examine the implementation of policy. The responsibility for questioning policy is left for other parliamentary select committees and debating chambers of Parliament.

3. Description of the research

This paper concerns the development of VFM audit in relation to local government in Spain. This research is postulated on the idea that VFM audit is a key element of audit activity and should have a strong focus by government audit bodies in Spain.

Three main reasons were seen as important reasons for undertaking this research at this point in time.

- Firstly, the increasing pressures on public services across the globe (e.g. care of the elderly) suggest that an increased emphasis needs to be placed on VFM audit in local government in order to release resources for new service demands.
- Secondly, the economic situation in Spain, the UK and other countries and the impact of austerity suggest an urgent need to expand efforts at improving VFM audit in local government
- Thirdly. It does not seem that Spain is anywhere near other comparable countries in terms of the sophistication of its approaches to VFM audit.

These three factors suggest that now, more than ever, there is an urgent need to strongly address the question of whether VFM audit should, in the future, be an important aspect of Spanish local government audit and how it should develop. The aims of this research were therefore, to address the following key questions:

- What is the current position regarding the development and application of VFM audit in Spanish local government?
- Is there sufficient external control in Spain, concerning the ability to encourage performance improvement and accountability in Local Government?
- What is the case for developing effective VFM audit in Spanish local government?
- What is the degree of support to possible changes in Spanish auditing regulations?
- What is required to develop and apply effective VFM audit in Spanish local government?
- What is the degree of acceptance among those responsible for the internal and external control in Spain, about a number of aspects related to VFM audit which have been applied in the UK in recent years?

Prior to commencement of the primary research, a comprehensive literature search of academic and public policy literature was undertaken together with an in-depth period of research in the UK undertaken by one of the authors. Subsequently, from April to November 2011 a national survey, in Spain, was undertaken directed at two distinct groups:

- Staff responsible for internal control and accounting in Local Government – internal auditors/financial officers¹, primarily
- Members of the external control bodies or OCEX.

¹ Accounting and internal audit are responsibility of the same officer in Spanish Local Government. This has been criticized for not guarantying independency.

The sampling method used for the collection of internal auditors/financial officers views was stratified sampling, dividing the population and the sample into five tiers (depending on the size of the local authority, in terms of inhabitants).

Over the last decade various Spanish academics have pointed out the inadequacy of performance information reporting frameworks in Spanish local government, both in relation to accountability and for internal decision-making (AECA, 2001; AECA, 2002; Álvarez et al, 2004; Carrasco, 1994; Dodero, 2004; López and Buendía, 1993; López and Fernández, 2004; Ministerio de Administraciones Públicas-Federación Española de Municipios y Provincias, 2005; Milanés, 2003; Navarro, 1998; Pablos, 1997; Robleda, 2010). Consequently, the survey undertaken is built upon this existing dissatisfaction and the agreement on the need to introduce changes in the areas of accounting and internal and external control. It also investigated the degree of acceptance of new roles, relationships, incentives and aspects to be evaluated, taking as reference the structures studied for the UK.

The response rate for financial officers/internal auditors is shown in table 1:

Table 1

	Total	Responses	Response rate
Local authorities (20,000 – 30,000)	144	53	48.6%
Local authorities (30,001 – 50,000)	98	24	22.0%
Local authorities (50,001 – 100,000)	83	19	17.4%
Local authorities (100,001 – 500,000)	56	8	7.3%
Local authorities (> 500,001)	6	5	4.6%
Total	387	109	100%

As regards the statutory external auditors, the population size was given by the number of OCEX units existing in Spain, amounting to 14 by the end of 2011. The sampling method was not probabilistic, having obtained 15 responses from six different OCEX units.

The responses gathered were treated statistically using contingency tables, independence test (Chi-squared, Correction for Continuity of Yates), association coefficients (V of Cramer, C of Contingency by Pearson). Kruskal-Wallis test was also applied to analyse the differences in opinion among internal auditors/financial officers belonging to local authorities of different size, but none of the differences were significant from the statistic point of view.

4. Public and local government audit in Spain and the current emphasis on VFM audit

In Spain the Court of Audit (*Tribunal de Cuentas*) is considered as the supreme audit institution of both the accounts and the financial management of the State and the public sector, in accordance with the Spanish Constitution (1978), the *Ley Orgánica 2/1982 del Tribunal de Cuentas* and *Ley 7/1988 de Funcionamiento del Tribunal de Cuentas*.

Since 1984 most of the autonomous regions² have set up regional audit institutions in order to undertake the external audit of the regional public sector and local authorities. Together, both the Court of Audit and the regional audit institutions are called OCEX (external control bodies). The functions performed by the regional OCEX in the audit of their respective public sectors must be compatible with the functions performed by the Court of Audit, although there is no hierarchical dependency between them.

The activity of the Court of Audit has its natural recipient in the National Parliament, which exerts political or parliamentary control over its proceedings. In turn, regional parliaments approve acts which regulate the legal status, powers, competencies and other characteristics

² Spain is divided into seventeen autonomous regions, each of them with its own government and parliament which, in turn, depend on Central Government. Each region has its own competencies, which very often differ from one region to another.

of regional public audit bodies. Consideration of their performance is generally delegated to a parliamentary commission.

The twelve counselor members of the Court of Audit are appointed for a period of nine years by the National Parliament, requiring a majority of three-fifths of each in the Chambers (Congress of Deputies and Senate). The counselor members of regional OCEX are appointed generally for six years. These are political appointments and the composition of the audit body usually reflects the political balance within regional parliament.

The Audit Court draws up its own budget, which will be integrated into the General State Budgets (*Presupuestos Generales del Estado*), in a separate section, and is approved by the National Parliament. With regard to the financing of regional audit institutions, their resources come entirely from the budget approved by the respective regional parliament, which also verifies its execution.

The findings from the audits undertaken by OCEX will be exposed by means of either ordinary or extraordinary reports or memories and motions which will be sent to the respective Parliament (National or regional), and to the audited entity, and published in the correspondent Official Bulletin. Besides that, OCEX publish their audit reports on their website.

The Court of Audit is responsible for two functions, the auditing or watchdog function and the jurisdictional function:

- The watchdog function - characterized by being external and permanent– leads to checks as to whether the economic and financial activity of the public sector respects the principles of legality, efficiency, and economy.
- The jurisdictional function involves the prosecution of accounting responsibility incurred

by those responsible for the management of public resources.

As far as the regional OCEX are concerned, their tasks are determined by their respective constitutive acts. Their main duty is to audit the economic and financial activity of the regional and local public sector. The audit function covers the criteria of legality, financial regularity and economy, efficiency and effectiveness.

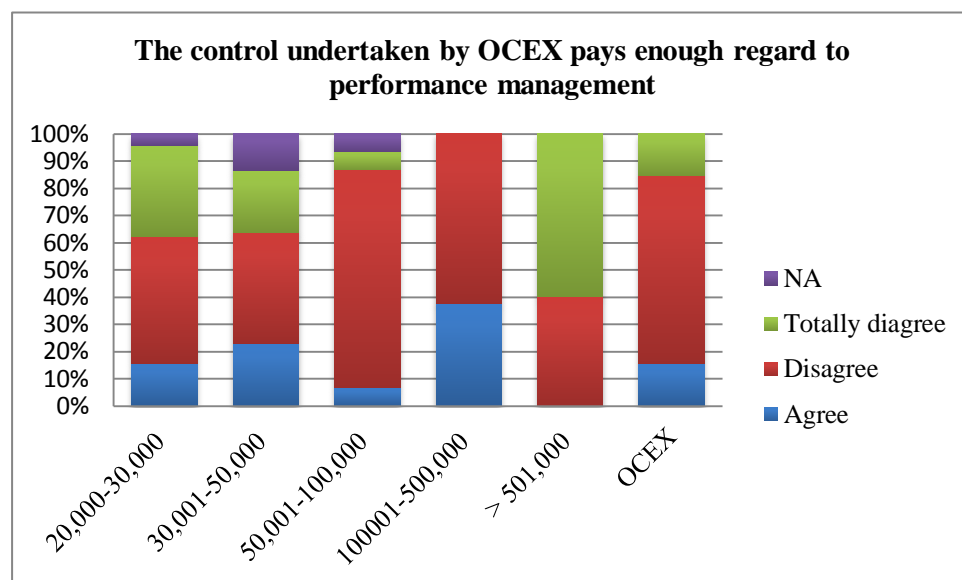
On the other hand, according to regulations affecting Local Government: Ley Reguladora de Bases del Régimen Local (LRBRL) and Texto Refundido de la Ley Reguladora de Haciendas Locales (TRLRHL) (art. 115 y 223, respectively), external control of the accounts and financial management of local authorities corresponds to the Court of Audit. From another perspective, local authorities are subject to the public accounting regimen, which involves the obligation for them to account for their respective operations to the Court of Audit (art. 201 of the TRLRHL).

This paper is focused in one of the duties of OCEX, the audit of economy, efficiency and effectiveness, which assess the action of the audited entity, in accordance with its assigned objectives and principles of good management. Its purpose is to assess whether human and material resources and budgetary funds have been administered efficiently and economically. It also involves assessing the degree of effectiveness in the achievement of the objectives envisaged.

The development of performance audits coincided, in Spain, with a greater concern for the quality of public management (Cansino, 2001). Although regulations explicitly include VFM controls as part of the obligations and powers of the OCEX, it is financial regularity and legality audit which has dominated audit practice. VFM or performance inspection is still a challenge for OCEX and even more so in Local Government. To this regard, the results of the

survey indicate that local government finance staff and members of OCEX do not believe the external control currently exercised by the OCEX pays enough attention to performance management, as it is shown in the chart 1.

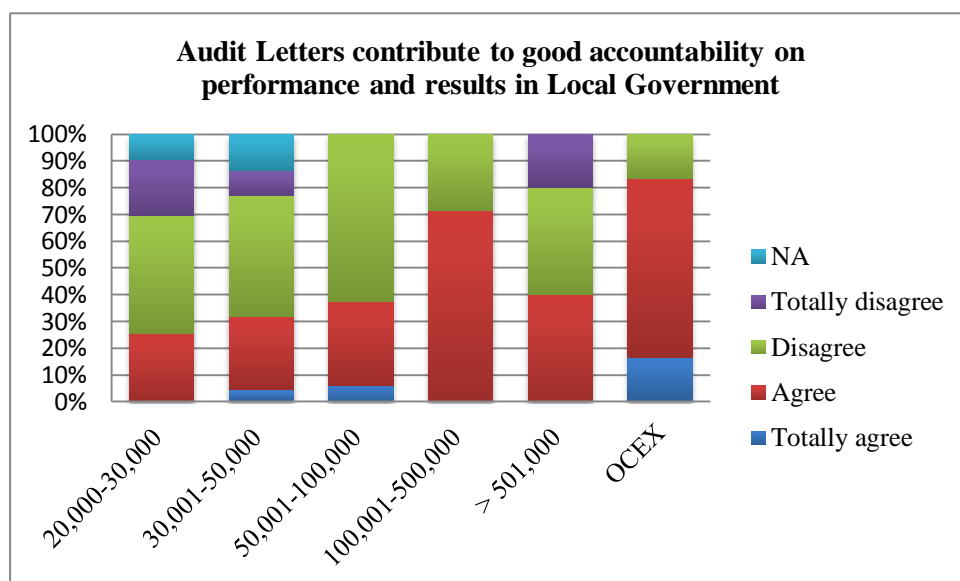
Chart 1



It can be seen there is a strong convergence of views between internal auditors/financial officers (across different population segments) and members of the OCEX, in disagreeing with the above statement. This is corroborated by Chi-squared Test (p-value: 0.85) and Correction for Continuity of Yates (p-value:1), which mean that attributes 'collective to which the respondent belongs' and 'opinion regarding this issue' are independent.

In relation to the above, the study also raised the possible lack of adequacy of current external audit reports in contributing to accountability to citizens for local government performance. The results are shown in chart 2.

Chart 2



The answers show a lack of consensus on this regard, since the internal auditors/financial officers mostly disagree in all the sections, with the exception of those from the subsample of 100,001-500,000 inhabitants, where agreement dominates, coinciding with the OCEX.

In this regard, if we consider the attributes 'collective to which the respondent belongs' and 'opinion regarding this issue', in its dichotomous modalities (member of OCEX or internal auditors/financial officers and Agree or Disagree), it can be observed that both Pearson's chi-squared test (p-value: 0.00) and Correction for continuity of Yates (p-value: 0.00) are significant, which means that both factors (attributes) are not independent. In other words, the internal auditors/financial officers and members of the OCEX reveal differences in their opinion as to the usefulness of the performance audit reports. Also, the association coefficients V of Cramer (value 0.32; p-value: 0) and C of contingency of Pearson (value: 0.3; p-value: 0) allow confirming the existence of association between the two referred attributes.

Therefore, it might be said that the OCEX members are more benevolent regarding the usefulness of external audit reports and, thence, less critical about the effectiveness of their own work to contribute to accountability in Local Government.

In short, despite the fact that regulations include, explicitly, the performance controls as part of the duties and powers of the OCEX, and a broad consensus exists on its convenience and need, VFM audit in Spain is still far from having a strong emphasis in practice.

5. Developing VFM audit in OCEX

In the majority of European countries, public services now need to be planned and managed in an environment of significant financial austerity. In particular, Spain is subject to strong financial pressures, and must pass the 8.9% of public deficit existing at the start of the current parliamentary term (November 2011), to the 6.3% committed for 2012 with its European partners, equivalent to an adjustment of 28,700 million of euros. As far as Autonomous Communities are concerned, the budgetary reductions in their budgets vary, exceeding the 20% in some cases.

When it comes to Local Government, which is responsible for the provision of many public services, councils have been forced to issue adjustment plans to contribute to the objective of reduction of the public deficit. These plans must be approved by the Ministry of Economy and Finance for the local authority to access to a line of credit to pay its suppliers. However, local government in Spain has traditionally experienced a situation of financial stress. The reason for this is the historic lack of linkage between the array of services assumed to be provided, but not defined clearly by legislation, and the funding system, dependent greatly on regional and central government. The existing local funding model isn't satisfactory and discontent is heightened in the current economic context, posing more urgency in the need for

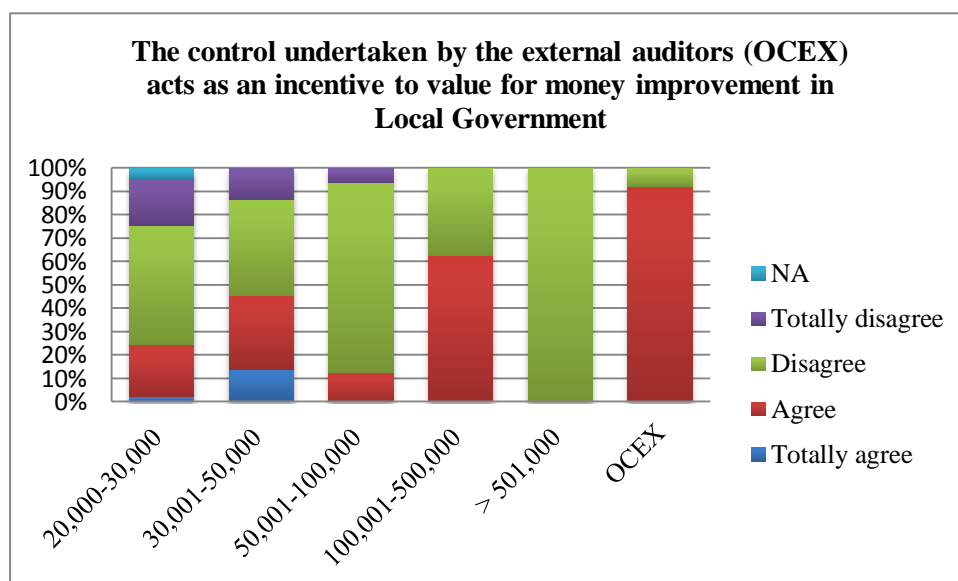
cost-saving measures to maintain planned investments and the quality of the services provided. It will be necessary, as a result, to increase the rigour of expenditure management to optimize the use of the existing resources and to carry out a review of priorities. In summary, it is essential to have a better orientation of local public services towards effectiveness, economy and efficiency, targets which will require the design and implementation of new tools for generation of information and measurement of results, as well as control arrangements. For this reason, the current crisis can be seen as an opportunity for the improvement of systems, structures and procedures, to be taken as a starting point for the local administration.

VFM audit remains fundamental in this environment. The *Ley Orgánica 2/1982 del Tribunal de Cuentas*, in its article 13.1 sections b) and c), points out from amongst the aspects which the Court is bound to assess in its audit activity is the fulfillment of the estimates and the execution of the budgets of the State, autonomous regions, local authorities and other entities subject to the public budgetary system, based on criteria of efficiency and economy.

Therefore, the improvement of public management is one of the objectives of the external control, with VFM audit being the necessary tool for the review of public administration and, in particular, for the consideration of the principles of efficiency, effectiveness and economy.

OCEX should not stay aside from the challenges posed to local governance (Teré, 2009). However the survey results (chart 3) suggest that OCEX current role is far from being the one required by the circumstances.

Chart 3

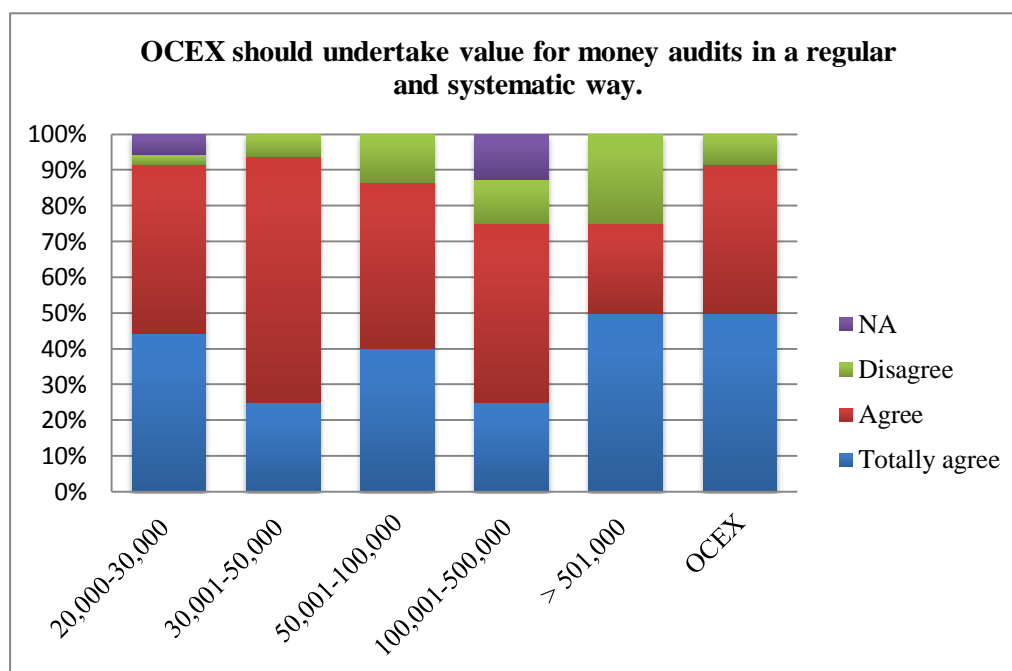


The questionnaires show a stark contrast between the views of OCEX and the internal auditors/financial officers of municipalities. However, there are also considerable variations between the different types of municipalities, although Kruskal-Wallis test (p-value: 0.06) resulted not significant. On the other hand, tests Chi-square (p-value: 0.00) and Correction for Continuity of Yates (p-value: 0.00) indicate that internal auditors/financial officers and members of the OCEX show differences in opinion as to the capacity of the external control to encourage the improvement of the 3 E's. The degree of association is measured by the Coefficients V of Cramer (value: 0.42; p-value: 0.00) and C of Contingency (value: 0.39; p-value: 0.00).

If we consider chart 3, it is possible to identify the direction of that association, tending for the members of OCEX to assess more positively their own performance.

Finally the survey indicates that the VFM audit of local public services ought to be incorporated into the practice of OCEX in Spain, as a systematic and periodic review on the performance and the results achieved. This view is shown in chart 4.

Chart 4



Across all types of local authorities and OCEX there is, in general, a strong endorsement of the view that OCEX should undertake VFM audits. Attributes like ‘collective to which the respondent belongs’ and ‘opinion regarding this issue’ are independent according to the Chi-squared (p-value: 0.95) and Correction for Continuity of Yates test (p-value:1).

6. Requirements for developing a VFM audit approach in the Spanish Local Government

To develop a comprehensive and robust approach to VFM audit of Spanish Local Government is a complex and time consuming task. In this section we give some preliminary discussion to the key issues involved.

As mentioned before, financial regularity and legality audits have prevailed in the Spanish public sector, even more so in Local Government although there is a tendency to increase the

efforts to carry out performance audits. The development of performance audit has been hindered by a number of factors which are synthesized below:

Insufficiency of the internal control mechanisms applied over Local Government's performance

This limitation concerns two aspects: planning by objectives and use performance indicators.

Evaluation of management effectiveness cannot be approached in a rigorous way if there is a deficient planning function in the audited body and objectives do not appear to be clearly and quantified (Montesinos, 1987). Frequently, the objectives of local public services are not defined, are incomplete or only exist in a theoretical way or are not quantitative. It can even be the case that the objectives are well defined but not used. In this context, it will be necessary to ensure that all public entities make an effort to define clear and workable objectives in their respective reports and budgets programs. Where there is an absence of suitable goals and/or performance indicators, then OCEX would have to recommend their development (Fernández, 2010).

The assessment of efficiency requires guidelines or benchmarks to be used as a reference in order to make comparisons (Navarro et al, 2008). For this reason, without a system of internal control that comprises a set of performance indicators, VFM assessment can be limited to a mere descriptive and analytical exam without being able to establish rigorous comparisons or make reliable judgments.

Weakness of the performance reporting framework and the duty of accountability

Spain has not in place a strong performance reporting framework for Local Government meaning the existence of information on management and results in relation to certain

performance indicators, which are only compulsory for those services financed in some way by users' contribution³. Furthermore, the reliability and comparability of the latter is reduced, since cost accounting and strategic planning has not been developed consistently in local authorities. This is not the case for the reporting of financial and economic aspects, but even for them the lack of restrictive and punitive effects for the breach of the obligation of accountability becomes an important disincentive for its realization and fulfillment in the form (Valdés and Colinas, 2004).

In this situation, it has been argued that the need for regional OCEX to obtain from their respective parliaments the introduction, via the regional finance laws, of a duty to report on certain performance indicators in the accounts rendered by the Government agencies and public enterprises. Information could even be required, through regularity audits, about the existence or not of performance indicators useful for managers to self-assess the economy and efficiency of their activities, and recommend their implementation in the future (Mira-Perceval, 2006).

Shortage of human and material resources in OCEX

Inadequate resources may explain, in part, the small number of VFM audit reports, their lower quality or the excessive delay in its completion. It has been argued, in this regard, that the development of this type of audits implies achieving an adequate degree of knowledge of the activity carried out by the audited body and, therefore, requires having specialists that, in many cases, are not available in OCEX (Mira-Perceval, 2006). In addition, VFM audit probably consumes more resources and time than financial and probity audits. Also, it must

³ *Plan General de Contabilidad Pública adaptado a la Administración Local 2004: Órdenes EHA/4041/2004, EHA/4042/2004 y EHA/4040/2004, de 23 de noviembre, relativas al modelo normal, simplificado y básico de contabilidad local.*

be considered that alerts and recommendations by OCEX may be totally distorted if they take place with delay with respect to the time of management (Cabeza del Salvador, 1997).

On this last issue, it is necessary to mention that the collaboration of private audit firms may be inhibited by the inadequacies of OCEX own means. According to Martínez (2005), audit reports from private audit companies only may be used after checking out that techniques and procedures applied are consistent with the OCEX control standards. In addition, the final report shall be prepared and approved by the OCEX.

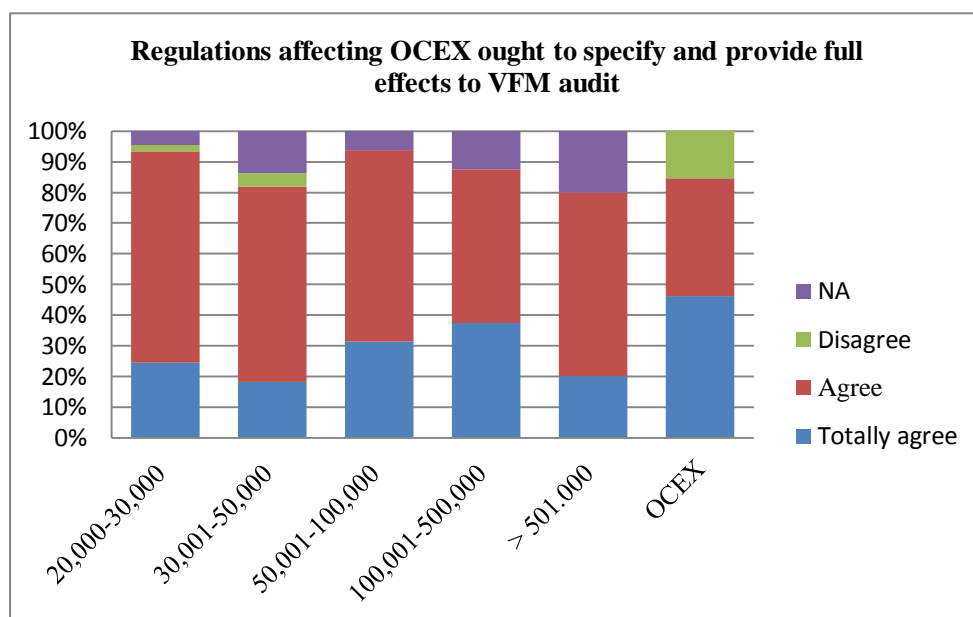
Little tradition and absence of a set of procedures and guidelines commonly adopted by OCEX for the practice of VFM audit

The lack of tradition and standardized procedures contributes to the insufficient development of VFM audit in Spain. At the central level, the IGAE (*Intervención General de la Administración del Estado*, akin to Office of the Comptroller) issued in 1983 the first public sector auditing standards - currently existing is the version of 1998⁴ - which highlighted a greater attention to performance audit in its various forms and modalities. However, there is no mandatory code for its practice at any tier of the public administration, although there are some recommended documents available, such as the Manual of VFM audit published by the IGAE in 1996.

In this regard, the survey highlighted the need to strengthen OCEX's regulation in this area through the following question (chart 5), towards which agreement dominated (more than 80%) in both groups surveyed.

⁴ These rules are also applicable to Local Government, as it is provided for in *Texto Refundido de la Ley Reguladora de Haciendas Locales* (2004, art. 220).

Chart 5



As to this question, the independence tests applied reveal contradictory results (although the sample size - less than 150- advises Correction for Continuity of Yates (p-value: 0.13) rather than Chi squared Test (p-value: 0.02). According to the former, a conclusion can be reached that the two collectives surveyed do not show differences in their opinion to this issue.

To advance in this purpose a number of measures have been proposed. One of them is that the Conference of Presidents of regional OCEX, through a technical Committee formed for this purpose, developed a set of common recommendations for VFM audit consolidation, including aspects of internal organization of the OCEX, general principles of action, standardization of the audit reports and common practice when commissioning with private audit firms.

It would be necessary to extend the political consensus in the configuration of the OCEX for the determination of objectives whose fulfillment will oversee the VFM control (Duran, 2008). This could help to reduce the mistrust that still exists among some public managers with respect to these agencies.

Also, emphasized is the desirability of institutionally reinforcing the OCEX in the field of performance audit, through a reform of the statutes of the autonomous communities and the laws affecting the Court of Audit (Biglino, 2008).

A negative conception of external control

OCEX should attempt to modify the image they offer to the audited entities and citizens. On the one hand, although the control function is meant to collaborate with managers at identifying deficiencies and corrective actions for improvement, there is still some institutional distrust among some public managers towards the figure of the external auditor. It might be said that there is a widespread conception of external control as a sanctioning function, which must evolve towards a stronger partnership arrangement with managers (Medina, 2010).

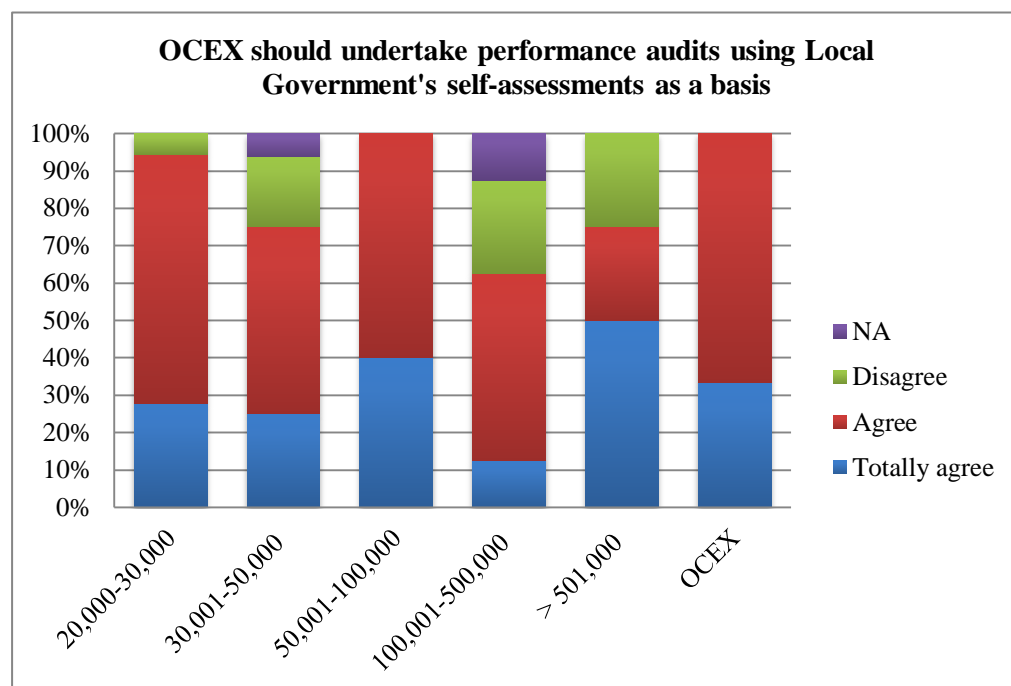
On the other hand, little publicity is given to the OCEX actions, which conflicts with the increasing demand for clear and accessible information from citizens (Pallot, 2001). This issue might be improved through an adequate policy of increased divulging of information and an effort at synthesis, by the respective cabinets, of communication and public relations of the OCEX (Erbiti, 2003).

A lack of coordination between internal and external audit.

Collaboration and coordination between internal and external audit is an effective mechanism for achieving a proper and comprehensive review of local management. In order to contribute to this purpose, the accounting system of the entity must be able to provide sufficient information as to the performance developed. In addition, according to the rules governing the audit function, the review of the internal control system is compulsory for the auditor, should this examination act as a base for the decision on the audit approach to adopt.

In this regard, through the questionnaires undertaken respondents were asked whether the external VFM audits should take as a starting point the self-assessments on performance carried out by the own local authority. Chart 6 below shows the results obtained:

Chart 6



In the chart it can be seen that the acceptability of this measure is higher than 60% in all segments of internal auditors/financial officers, whereas it exceeds the 90% for members of OCEX. Attributes 'collective to which the respondent belongs' and 'opinion regarding this issue' are independent according to the Chi-squared (p-value: 0.24) and Correction for Continuity of Yates test (p-value:0.53).

As a summary, to incentivise this type of audits in Spain it is precise, among other things, to approve a set of principles and rules specifically applicable for their implementation, the standardization of performance audit reports, as well as to achieve a consensus on the goals whose fulfilment will supervise VFM monitoring.

Similarly, there is a need to promote collaboration between internal audit and control - exercised within Local Government and OCEX- forming what might be called a 'system of control' which would enhance the achievement of the goals and objectives of both. In this sense, Local Authorities should be taking the necessary steps to secure accountability to OCEX, which involves producing useful information for VFM audit at the level of public services. Moreover, a proper development of VFM external audit would determine a number of minimum properties to be met by the internal control and accounting system. The construction of performance indicators might contribute to this purpose, being the reinforcement of the existing reporting performance framework a key element in this purpose.

Finally, OCEX must be endowed with greater means in order to exercise VFM audit properly.

8. Conclusions

A number of conclusions can be drawn from this research.

Firstly, the current social and economic environment in which Spanish local government now has to operate suggests and strong imperative to have a strong VFM audit function.

Secondly, there is strong consensus within local authorities and within OCEX that current audit practices do not give sufficient attention to VFM audit.

Thirdly, there is a sharp difference of view between local authorities and OCEX as to the extent to which

- the existing audit letters contribute towards accountability for performance and results.
- the current audit control function provides an incentive to search for improved VFM.

Fourthly, across all types of local authorities and OCEX there is a strongly held view that OCEX should undertake VFM audits in a regular and systematic manner.

Lastly, to be able to undertake VFM audit in a regular and systematic manner require a considerable degree of development work across a wide range of areas. Additional research is required in a number of related areas including the framework for assessing and reporting on VFM and the design and application of suitable performance management systems within Spanish local government. These are major tasks.

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