

PROBITY OR PERFORMANCE?

150 Years of Public Expenditure Reform, UK Defence 1850-2000

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Abstract¹

Purpose – This paper analyses public sector accounting and organization reforms, focusing on the departments in charge of defence, military procurement and war between 1850 and 2000 in Britain. Over this period, three parliamentary acts, resulting from a power struggle between the Treasury and Parliament, produced the shift between two institutional logics: probity (spending properly) and performance (spending well). The purpose of this paper is to describe how the acts produced a shift between two institutional logics.

Design/methodology/approach – We adopt Quattrone’s (2015) procedural notion of institutional logics and the consequent concept of ‘unfolding rationality’. Using documents from the National Archives, we analyse three reforms: The Exchequer and Audit Departments Act 1866 (towards probity), The Exchequer and Audit Departments Act 1921 (towards performance), and the National Audit Office Act of 1983 (towards performance and probity).

Findings – For a long time, the actors narrated in this story argued and acted as if probity and performance were incompatible. The two are now treated as compatible and equally important. Before that, the ‘incompatibility’ was a rhetorical, or ‘procedural’, device. We argue that a procedural rather than substantive notion of institutional logics is more suitable to explain the trajectory that was the result of constant negotiation among actors.

Originality/value – The originality of this paper stands in highlighting the link between the institutional logic of public-administration accounting and military history. This link emerges also thanks to a very long time-horizon. Additionally, from a theoretical viewpoint, we have put Quattrone’s approach to the test in a context very different from the original one (the Jesuit order).

Practical implications – Our study might contribute to understanding of the increase in national defence-spending at continental level and the call for a common EU military procurement strategy that followed the invasion of Ukraine. The war could produce changes in what is a traditional tension between two logics: sovereignty or efficiency.

Keywords: Britain; defence; military history; accounting; audit; management and organizational history; probity; performance; Parliament; government; National Audit Office; Ministry of Defence

¹ We express our gratitude to the reviewers. We have really learnt a great deal from their anonymous feedback. They have read the paper, a very long one, several times, and have patiently pushed us to improve it. They have noticed both tiny inaccuracies and large shortfalls, and they have kindly supported us to the stage of publication.

1. Introduction

The paper aims to contribute to the understanding of management and accounting in the public sector by exploring the evidence of a supposed contradiction between performance and probity. We do so by analysing public-sector accounting reforms, focusing on the departments in charge of defence, military procurement and war between 1850 and 2000 in Britain. Over this period, two institutional logics, probity and performance, oscillated (Thornton & Ocasio, 1999; Ponte and Pesci, 2021). Probity means spending resources as allocated by the Parliament, with a respect for procedures and norms aimed at avoiding corruption and misuse. Performance (Cavalluzzoa, Ittnerb, 2004) means spending that provides ‘value for money’ (VFM), or efficient and effective spending. The latest Treasury handbook on public spending defines the standards (Suddaby et al., 2007) expected for projects and proposals.

Regularity: the proposal has sufficient legal basis, parliamentary authority, and Treasury authorisation; and is compatible with the agreed spending budgets. Propriety: the proposal meets the high standards of public conduct and relevant Parliamentary control procedures and expectations. Value for money: in comparison to alternative proposals or doing nothing, the proposal delivers value for the Exchequer as a whole. Feasibility: the proposal can be implemented accurately, sustainably, and to the intended timetable. (H.M. Treasury, 2022, p17)

Probity and performance are treated as equals, but this was for a long time not the case. Three reforms, sponsored by different actors, triggered the changes narrated in this paper: The Exchequer and Audit Departments Act 1866 (probity), The Exchequer and Audit Departments Act 1921 (performance), and the National Audit Office² Act of 1983 (performance and probity).

The paper analyses the history of the supposedly contradictory logics of probity and performance over 150 years, adopting a notion of procedural logics (Quattrone, 2015). We contribute to the institutional accounting literature explaining how, also in this case, accounting, as an institution, is shaped by the constant interaction among actors. The two logics

² NAO

were constantly negotiated, while the relative power of actors to shape the social order changed depending on external factors such as the likelihood and nature of war.

In sections 2 and 3 we review the literature and introduce the theoretical framework and data. Section 4 analyses the events from 1850-1865 that prompted the first of our Acts; the resulting 1866 Act is critically evaluated in section 5. Section 6 covers the period 1867-1920, with control reverting to the Treasury via the 1921 Act, covered in section 7. Section 8 evaluates the period through 1922-1982 that triggered the 1983 Act, which is dealt with in section 9. In sections 10 and 11 we present our findings and contributions.

2 Literature and theoretical framework

The paper is positioned into the institutional perspective of accounting and intersects with the stream of literature on accounting and war. In this section we review the two literatures, and we present our theoretical framework.

2.1 Accounting for war

The literature on accounting, war and defence is rich. This should not be surprising because for centuries military spending had been the largest portion of state spending and borrowing (Dewar & Funnell, 2017) until welfare states developed after the Second World War. ‘Accounting for war’ is an excellent review published by Chwastiak and Lehman (2008) as is ‘The profession of arms and the profession of accounting numbers’ by Cobbin and Burrows (2018). Other important general contributions include ‘Accounting at War’ by Funnell and Chwastiak (2015), Funnell and Chwastiak (2010) and Funnell (2009). Some studies have concentrated on the Royal Navy, which absorbed huge resources in imperial Britain (Cobbin and Burrows, 2010; McBride, 2019; Dewar and Funnell, 2017, p111).

Military spending has often prompted innovations in accounting and auditing methods for the entire public sector. For instance, accruals accounting was tried out on Army and Navy expenditures in 1889 (Dewar and Funnell, 2017, p161). War spending impacted accounting and audit practices; for instance, the American War of Independence triggered the scrutiny of military accounts and Civil List (Cobbin and Burrows, 2018; Dewar and Funnell, 2017 p.57). The literature includes studies on the military influences on public-sector audit (Funnell, 1997) or the study of austerity measures that followed war spending, such as Burrows and Cobbin (2009) on the ‘Geddes Axe’ or Miley and Read (2017) on war pensions.

The matter can also be analysed from a comparative international perspective. Kirby and Cox (1983) worked on Britain and the United States, Djatej and Saritas (2009) on Soviet accounting during the Second World War, Lemarchand (2002) on the military origins of the French management accounting model, Vollmers and colleagues (2016) on Italy in WWI.

In summary, the literature tells us that public-sector accounting has been significantly influenced by military spending because of the dimension of funding involved and because of the socioeconomic and political impact of war. What is sometimes missing in the accounting or historical military literature is a sociological theory to interpret the dynamics triggered by spending decisions, reforms and debates between the actors involved.

2.2 An institutional accounting perspective

Wysocki (2011) defines accounting as an institution, making use of classic contributions such as North, Olson, and Williamson. In sociology, institutional economics, and in institutional accounting, actors contribute to define the shared meaning and use of institutions. As Coase stated in the 1960s, if we lived in a neoclassical economy with no transaction costs, institutions would be irrelevant. However, ‘Becker (1965), North (1981) and Barzel (1982) point out that transaction costs can be significant in an exchange setting if it is difficult to determine the qualities and quantities of traded items, if there are problems in enforcing the terms of trade and when trade is not repeated between economic players’ (Wysocki, 2011, p. 311). In complex economies and advanced societies, institutions are needed to lower transaction costs, information and coordination costs, asymmetry of information and power, and ability to enforce property rights. Accounting is one of those institutions, but accounting represents a cost too.³

The centralization of activities and the imposition of standards and procedures represent a cost. Central authority can abuse power or be inefficient or ineffective or both. Whoever controls the accounting rules can adjust them to own interests:

Therefore, while observed accounting institutions may lead to improved trade and growth, they may also facilitate corruption and inefficiencies. Therefore, in any analysis of an accounting system that arises in an economy, one must understand the balance between the possible benefits from increased contracting efficiency against the costs of central enforcement with its accompanying unequal distribution of coercive powers (Wysocki, 2011, p. 312).

Aoki (2001, p. 10-12) defined the institution as ‘a self-sustaining system of shared beliefs about a salient way in which the game is repeatedly played’. In other words, the rules of the game are not given or fixed but are socially constructed through the strategic interaction of agents.

In his classic 1987 article, Scott offered a review of sociological formulations focused on institutions. Those were classified in four categories of institutional theory: ‘Institutionalization as a process of instilling value’; ‘Institutionalization as a process of creating reality’; ‘Institutional systems as a class of elements’; ‘Institutions as distinct societal

³ Dewar and Funnell (2017) describe how in several occasions the evolution of British national audit was constrained by the amount of transactions and cost of controls using one method or another. For instance, the war contracts would require large resources for the auditing. The War Office spent £400.000 to recruit new staff for the newly established Corps of Military Accountants during World War I (p. 161).

spheres'. We analyse the events narrated in this paper by adopting an institutional accounting perspective, and in particular we adhere to the 'Institutional systems as a class of elements' perspective, which recognises that:

In modern, rationalized societies, the forms and sources of social beliefs and other types of symbolic systems have themselves become more rationalized: folkways and traditions and customs give way to laws, rules, and regulations; and elders' councils and other forms of soft traditional authority are replaced by the nation-state, the professions, and rationalized systems of law ... that shape organizational life both directly by imposing constraints and requirements and indirectly by creating and promulgating new rational myths (Scott, 1987, p. 499).

A more recent classification is that provided by Furnari (2017). He describes two possible perspectives to the processes linking field structures, issue frames and field change: either 'Fields of forces perspective' or 'Fields of play perspective'. The narrative adopted in our paper belongs to the latter, where the fields are 'political arenas where actors vie for the advantages provided by field positions'. In our case the political arena was literally such, being the Parliament where both government and legislators argued against each other's positions. Consequently, the focus should be on the 'active role of actors in pursuing field change and actors' cultural cognitive processes (such as framing) and their influence on field change' (Furnari, 2017, p. 6).

Management accounting change can be either formal or informal (Scapens, 2006, p. 18). In our paper we predominantly refer to formal change. In their work on the accounting of local authorities, Collin et al. (2009) provide a definition of accounting functions that we adopt in this paper, as it serves well to describe the interaction between Treasury and Parliament:

Accounting can be perceived as having two functions: that of producing information for decision makers and that of distributing the results of production. Both functions have wealth effects for stakeholders of the organization. ... Stakeholders are therefore inclined to influence the accounting system of the organization. ... The politicians can, however, be regarded as agents in an agent-principal relationship where the citizens are the ultimate principals (cf. Behn, 1998). (Collin et al., 2009, p. 145-147).

Scapens (2006), from an institutional viewpoint, described the meaning, the origin and the implications of changes in accounting rules. In old institutional economics routines have a key role, but in our case they are not the reason behind the creation of the institution and its change. In terms of agency, the electorate influenced both the Government and Parliament, but

this influence changed over time with contextual factors. The relative power of each actor contributed to shape the dynamics and evolved with key external factors as the presence, likelihood and nature of the wars fought during this period.

The institutional dynamism is normally believed to emerge from institutional entrepreneurs (DiMaggio, 1988; Garud and Kumaraswamy, 2002; Garud, Hardy, and Maguire, 2007) or from competition, conflict, shifts (Hoffman, 1999; Hargadon and Douglas, 2001; 2002; Hensmans, 2003; Reay and Hinings, 2009). The evolution is the result of events in the field and not of change within the logics that are believed stable and coherent despite attempts to ‘bring society back’ into the analysis of social order in a way that did not give any form of institutional order causal primacy a priori.’ (Friedland and Alford (1991: 241) in Quattrone, 2015). Friedland and Alford also argued that logics do exist only as the interaction between symbols and practices and consequently cannot be understood by looking only to the inside or only to the outside. Logics should not be considered a priori, objective, self-sufficient, intrinsically meaningful and complete.

Some scholars have also studied changes that have occurred within the logics rather than outside in the field (Fligstein, 1990; Lounsbury, Ventresca, and Hirsch, 2003; Thornton, 2004; Suddaby, Cooper, and Greenwood, 2007). The success of one logic is believed to be the result of not only a conflict and power struggle but also of translations because operating logics require a degree of interpretation and subjective operationalization (Czarniawska and Sevón, 2005; Boltanski and Thévenot, 2006; Dunn, and Jones, 2010) if anything because of their incompleteness (Cloutier and Langley, 2013).

2.3 Our theoretical framework

The paper builds on the body of literature on accounting and war. Thanks to this existing scholarship we know that military spending has often triggered innovations in accounting and auditing methods for the entire public sector. This confirms the relevance of the time horizon and events mapped in table 1.

The paper adopts an institutional accounting perspective to guide us in the challenging task of collecting and giving sense to data that covers 150 years of British history. In our case, the institution is made up of the accounting standards, and the main actors involved are the British Parliament, the Treasury, the Army, the Navy and the ministry of munitions. We use historical evidence from Parliament, the Treasury and the War Office.⁴

⁴ A department of the government responsible for the administration of the British Army, established in 1857 and abolished in 1964, when its functions were transferred to the Ministry of Defence (MoD).

The contributions above provide the vocabulary and the theoretical constructs needed to make sense of complex accounting institutions such as those described in this paper. But the traditional approaches to institutional accounting did not suffice to explain our case.

One specific approach proved helpful in interpreting the evolutionary trajectory presented in the paper: the persuasive approach of ‘unfolding rationality’ (Quattrone, 2015) based on the notion of processual and substantive logics. This builds on previous contributions on the social and interactive nature of logics (Friedland and Alford, 1991; Haveman and Rao, 1997; Oakes, Townley, and Cooper, 1998; Jones, 2001).

This analysis was conducted using the categories of institutional accounting and one specific contribution. Building on studies of late-medieval and early-modern rhetoric, Quattrone (2015) theorized an ‘unfolding rationality’ through the interplay of rhetorical elements. His empirical work was inspired by the conversation summarized above and brought him to a theoretical contribution which is the development of two different notions of logics: the substantive and the processual. In his case, the Jesuit order, the procedural nature of the logic contributed to organizational success:

‘This procedural logic generated and sustained the engagement of Jesuit members in a series of routine activities that allowed the Order to achieve what contemporary organizations still struggle to attain: to endure across time and extend across space while flexibly innovating and adapting to changing contexts and circumstances.’ (Quattrone, 2015: 434).

The view of logics as substantive instead implies that innovation can only be the result of traditional conflict between alternative logics or at best some forms of recombination (Reay and Hinings, 2009; McPherson and Sauder, 2013).

What might originally appear as a conflict between absolute, self-sufficient and objective logics, Probity and Performance, can be better understood by instead assuming a degree of subjectivity in the interpretation of the logics and a willingness to accept conflict and competition as positive. A mechanism that leads to an unfolding rationality, an evolutionary understanding of the logics and not only the struggle between actors, Parliament and Government in our case. Indeed, a context of both endogenous and exogenous dynamism that, as we will see with the empirical data, is constitutionally organised. In the case of the Jesuit order, the processual nature of logics and the unfolding rationality contributed to the long and successful life of the organization (Quattrone, 2015; Bento da Silva et al., 2022). In the case of the British Parliament and Government, the unfolding rationality of accounting reforms

resulted from conflict, jealousy and mistrust that were designed as constitutional mechanisms and contributed to the equally long and successful history of British parliamentary democracy.

One key constitutional pillar of this democracy is that funds are allocated by the Parliament. Treasury funds are needed for War Office-determined action, on which the Army has to deliver but only the Parliament has the power to assign funds for one or another purpose (and equally only the Parliament has the power to approve taxation and borrowing). A key Treasury handbook on public spending clearly acknowledges this: ‘Much of this document is about meeting the expectations of Parliament.’ ... ‘The accounting officer of each organisation is accountable to Parliament for the quality of the administration that they leads.’ (H.M. Treasury, 2022, p.3 and p.25)

It is in the competitive tension between these institutions that the field modulating public expenditure emerges. The long story of institutional change we tell in this paper is the on-going synthesis of this tension that is determined by the procedural nature of logics and by the constitutional order that allowed and regulated the tension between actors fighting for ideal types but eventually ready to settle on a compromise.

3 Our data and time horizon

This paper was written making use of a large quantity of academic sources and archive material. Data collection was carried out in the UK National Archives, for departmental data, and the Bodleian Library at Oxford, for parliamentary data, journals articles and biography. Some was obtained elsewhere, e.g., The British Library for the Hansard collection and some of the manuscript references.

The primary material consulted consisted of: 54 professional magazine articles (38 from *The Accountant* and 16 from the *Incorporated Accountants Journal*); 35 items of personal correspondence between people involved in War Office expenditure decisions, from Winston Churchill to Sir Charles Harris (Permanent Secretary for War during the First World War); 26 items of bibliography from McCauley to Geddes; 257 government papers of various lengths (1 Cabinet Office on Esher Report, 1 Inland Revenue Comment on Crick Report 1948, 25 sheaves of War Office Papers, 55 Audit Office, 193 Treasury from 1855-1995); and finally 54 sets of Hansard parliamentary papers.

Though this paper focuses on the administration of military services and supplies, the departments in charge of that administration, the UK's War Office and Ministry of Defence, are exemplars for the public sector generally. We have chosen this sector because its dimension dominated public spending for a long time, and because not many other UK government departments have such a long history of continuity.

The qualitative interpretative process that we have adopted is as follows. First, we have identified three Acts that can be considered crucial in the development of public-sector audit and accounting in modern and contemporary Britain: The Exchequer and Audit Departments Act of 1866 and 1921, and the National Audit Office Act of 1983. We have analysed them and the literature on them. Then we have mapped the military events that have characterized this period. This triggered our intuition that the war events had an impact on the legislation and in the power dynamics between Parliament, Treasury, Army and Navy. While the literature had already established that war spending impacted accounting and audit practices, we conducted a detailed recollection of military events vis-à-vis political debates and reforms. To confirm our intuition, at this point we consulted archive materials that brought us into the parliamentary debates of the time and into the correspondence between key civil servants and political actors. At this point the logics became clearly visible, although the periodization neatly based on 1866, 1921 and 1983 (table 2) is a simplification.

In table 1 we recall the main events of our story, a conflict between supposedly opposite

alternatives that ends with a negotiated coexistence of the two. To conduct the analysis of those developments we have used archival materials and secondary sources. The two sources had to be combined for numerous reasons. This paper focuses on a specific time horizon of military and policymaking events that is not covered elsewhere in the existing literature. The archive materials provide an insight into the climate of conflict, jealousy and mistrust that generated the unfolding rationality of accounting reforms.

Although the three Acts are well known in the literature, this paper provides an original interpretation of how the reforms unfolded thanks to our primary data and theoretical framework. As we will see in the next sections, our archive material tells us that in a liberal democracy the conflict between actors, institutions and powers is judged normal. Adopting the model proposed by Quattrone, the logics appeared at first substantive but then turned out to be procedural, in the sense that both actors knew that it would be impossible to establish their permanent or absolute supremacy. The archive data gave voice to the actors and their interactions.

| Dominant logics | | Year | Military Events | Accounts | Treasury | Organisation | Support Data |
|-----------------------------------------------|-------------------------------------------|-------------|-----------------------------|-----------------------------------------|-------------------------------------------|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| | | 1853 | Crimean War | Silent contracts with private suppliers | | Public functions contracted out to privates | |
| | | 1854 | Charge of the Light Brigade | Standards for admin. Control | | Reform of Indian and Home Civil Service personnel management | Northcote-Trevelyan |
| | | 1855 | | | Treasury, huge loss of life for no return | | Reports 1 - 3 Army before Sebastopol |
| | | 1856-58 | | | | | Committees on Public Monies |
| | | 1857 | Indian Rebellion | | Expense of Army-India | | |
| | | 1861-65 | | | | | Public Accounts Committees (PAC) |
| | | 1866 | | | Treasury Credence Lost | | Special Report PAC |
| Power to Parliament: towards Probity | | 1866 | | Annual accounting | | Committee on Public Monies | The Exchequer and Audit Departments Act |
| | Towards cash accounting / probity | 1899 | Boer War | | Post war write offs | | |
| | | 1904 | | | | Proposed decentralisation | Esher Report Parts I-III |
| | Towards accruals accounting / performance | 1914 | World War I | | Introduced management accounts | | |
| | Towards accruals accounting / performance | 1918 | | Management accounts and budgets. | | Organisational decentralisation | 7 th Report Committee Public Expenditure |
| | | 1919 | | Accruals account | | | |
| | | 1921 | | | | | 3 rd Report PAC |
| | | 1921 | | | | | HMG Acland Committee Report |
| Power to Treasury: towards Performance | | 1921 | | No mention of accruals | | Whitley system of industrial relations. Centralisation. Treasury over Civil Service personnel management. | The Exchequer and Audit Departments Act |
| | | 1924 | | | | | Report on Admin. and Accounting for Army Expenditure, HMSO 2073 |
| | | 1925 | | | | | PAC |
| | | 1944 | World War II | | | | 11 th Report on Public Expenditure |

| | | | | | | | |
|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------|-------------|--------------|----------------------------------------|---------------------------------------------|--------------------------|------------------------------------------------------|
| | Towards accruals accounting / performance | 1950 | | | Crick report Introduces management accounts | | Crick Committee Cmnd. 7969 |
| | | 1961 | | | | Scientific Managerialism | Plowden report |
| | | 1964 | | | | | Pricing Ministry Aviation Contracts |
| | | 1965 | | | | | 2 nd Report Pricing of Contracts |
| | | 1965 | | | Economic Affairs wants accounts | | National Plan: DEA Cmnd. 2764 |
| | | 1968 | | | | | Fulton |
| | | 1981 | | | | | HMG Green Paper Role Comptroller and Auditor General |
| | | 1981 | | | | | HMG And HC 115 |
| Power to Parliament and National Audit Office: towards Probity and Performance | | 1983 | Falkland War | Parliament controls audit | | Managerialism | National Audit Act (NAO) |
| | | 1988 | | Independent executive agencies | | | Next Steps |
| | Towards cash accounting / probity and accruals accounting / performance | 1991 | | Silent contracts. 'Market testing'. | Accruals and Cash | New Management Strategy | Citizens charter |
| | | 1991 | Cold War End | | | | Competing for Quality. Cmnd 1730 |
| | Towards accruals accounting / performance | 1995 | | 'Resource accounts. Accruals. | Full Resource Accounting | | Resource Accounting/ Budgeting |
| | | 1998 | | | | | Strategic Defence Review |

Table 1, Supporting data and a chronology of acts, reforms, military events.

This paper identifies four stages delineated by the three Acts (table 2). The historical military events occurring in each stage confirm our interpretations of the rationale and consequences of the three examined acts. The 1850-1865 period covers the Indian Rebellion and the Crimean War. These were characterized by lower probity and arguably some performance improvement. This led, after a delay, to imposed legislative action: the 1866 Act giving more power to Parliament, which was aimed at more probity and the potential for better performance. The period 1867-1920 covers the Boer and First World Wars. These were characterised by improvements in performance, but led to the 1921 Act giving less weight to

probity with little discernible pay-off in performance. The Treasury was affected hardly at all by an emasculated National Audit Office that prioritised austerity. The period 1922-1982 covers the Second World War up to the end of the Cold War. This period was characterised by improvements in both probity and performance. These improvements were sealed by the 1983 Act. In the first stages the actors were trying to establish the supremacy of one ideal type, probity or performance. Later they allowed the coexistence of less radical forms of the two logics. This made possible the simultaneous achievement of satisfactory levels of probity and performance.

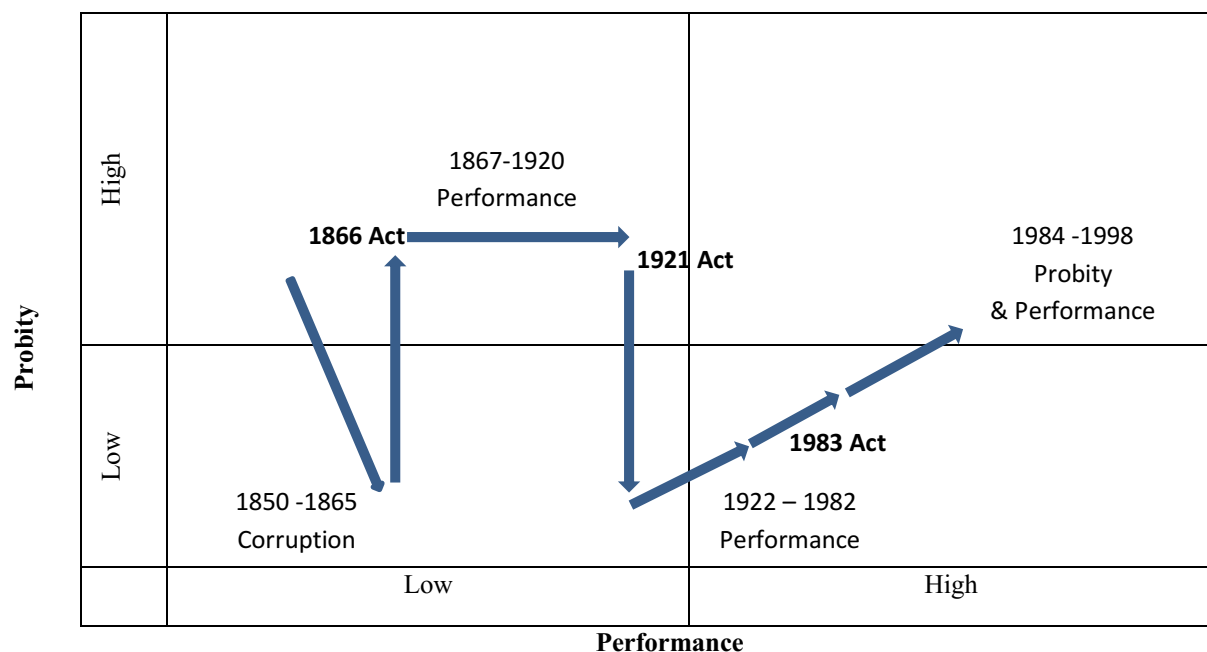


Table 2: Three Acts and a non-linear evolution

This is how we have identified the logics, the relevant accounting practices and the actors of reference. The first logic of probity refers to the supremacy of formal aspects over effectiveness. More than the impact of spending, the focus is on making sure that the norms and procedures are followed to avoid corruption or the use of resources on budget chapters different from those allocated by the Parliament. Consequently, key actors of reference are the Parliament and the civil-service officers in charge of auditing on its behalf (Comptroller and Auditor General and NAO). The preferred accounting method here is cash accounting with a centralised, bureaucratically controlled expenditure and parliamentary accountability. Cash was simpler, normally cheaper, straightforward and focused on propriety.

The second logic of performance refers to the supremacy of value for money. It means that the mere formal control on spending procedures does not suffice. The effectiveness of

spending needs to be measured by looking at objectives originally set, price, quality and time of procurement. The most suitable accounting method here is accruals accounting with decentralised flexibility in spending procedures, decentralised control and accountability only to central government. The actor of reference here is the Treasury. Accruals was more complex but able to look at the broader picture of investments.

Looking into the actors, the Treasury staff are trained to operate with the rhetoric of rationality and logos. Their professional standard (Suddaby et al., 2007; Suddaby and Greenwood, 2005; Suchman, 1995) is performance. Instead, the elected politicians, the parliamentary actors, have probity as a professional standard and operate with the rhetoric of emotions (pathos) and moral (ethos). This is the professional and behavioural diversity that animated our history.

It needs to be clarified that this oscillation, and a series of advances in one direction followed by retreats, occurred also in the centuries before the period analysed in this paper. This is wholly visible in the long view narrated by Dewar and Funnell (2017 p.34), a good example is on page 32 for the middle ages and early modern period and on page 59 for the same period covered by this article.

4 1850–1865: the Crimean war and the Indian Rebellion

The period between 1850 and 1865 was characterised by a climate of austerity towards military spending, with both low probity and low performance, a situation that triggered the reforms of 1866. By the mid-1850s, the government had been seen to fail badly in its use of military power and diplomatic influence abroad. A lack of military performance in the Crimea (1853-6) and the Indian Rebellion (1857-8) created significant disquiet about the government's capacity to defend the country's interests. The embarrassing and disastrous choices made during these conflicts (Rough, 2004) led eventually to the 1866 Act.

The style of governance used to manage the struggles of the 1850s involved outsourcing the business of the state to the private sector, including the selling of government, judicial, and military appointments. In the Crimea, the Treasury gave responsibility for keeping the Army supplied to a myriad of unreliable, untried, and untrustworthy private contractors. This had become government policy during the thirty years of peace following the Napoleonic Wars. Citing economy as grounds, the Army's own logistics organization had been virtually eliminated. Contracts with private suppliers were only for initiation in the event of war; they went unpractised in peace. Unsurprisingly, they failed totally when put to the test of the unforeseen exigencies of actual conflict. In a deployed Army of 30,000 troops originally, over 21,000 died and most of these were not killed by the enemy but by disease, cold and malnutrition (Rough, 2004; Fraser, 2016). This was a consequence of poorly administered and corruptly delivered logistical support, and of inadequate leaders making poor decisions. Army commissions were appointed by purchase on unregulated markets. This meant the force was stocked with woefully inadequate commanders, such as those responsible for the magnificent but bloodily futile 'Charge of the Light Brigade.'

The newly invented telegraph enabled *The Times* correspondent William Howard Russell to report what he witnessed in the Crimea within 24 hours of its occurrence (Fraser, 2016). Enquiries into the conduct of the Treasury, War Office and Army made the failures in administrative control even more publicly evident (HMG, 1856, HC 1856). The public outcry at the failure of outsourced supply for the British Army in the Crimea was doubtless the motivation for many of the proprietorial controls subsequently put in place (HMG, 1855).

In 1857, Hindus, Muslims and Sikhs joined together in armed rebellion against the East India Company's governance of India. An Imperial British Army had to be deployed to reimpose British rule. It was clear that this populous country, India, could not in the long run be governed in any way but by consent. This required a perception of government as fair and

honest. The basis for this, as Britain ultimately constructed it, were the ideas of the Northcote-Trevelyan Report of 1854 (in Fulton, Cmnd. 3638, 1968, Appendix B). These were applied to the reform of both the Indian and later the Home Civil Services (Edwards, 2011).

The Northcote-Trevelyan system of personnel management made each appointment and promotion dependent on demonstrable competence as displayed in the system. Public sector jobs were filled by a national competitive examination, run by a body independent of government and employing departments. They selected staff on the basis of competitive exam performance. Staff were then assigned randomly, outside of the control of the departments themselves or their political leadership. Appointments and promotions within departments were managed by a central establishment system which deliberately rotated staff between jobs within each sub-hierarchy, ensuring promotion was never determined by immediate line managers. Civil servants were thus encouraged to be loyal to the system, not to individuals within it.

In both cases, Crimea and India, the lack of delivered VFM was the central issue (Rough, 2004; Fraser, 2016). Impropriety was identified as the cause. Effective action was taken to put this right⁵ and the widespread lack of probity led to the 1866 reforms that are described next.

⁵ It should be noted that in the same era management practices were being instituted in the USA's public arsenals at Springfield and Harper's Ferry (Hoskins and MacVe 1988 & 1994, Tyson 1993) and arguably at the same time in the UK private firms (Hopwood, 1987, Fleischman and Parker, 1991, Fleischman, Hoskins and MacVe, 1995, Chandler, Edwards & Anderson, 1993, Edwards 1980, 1992) and in local authorities (Coombs and Edwards, 1995).

5 The 1866 act: power to Parliament

The aim of the accounting and personnel reforms of 1866 was to improve standards in public affairs and to curb excesses of corruption and partiality, whose results ran counter to the nation's interest. The use of public office as a route to private gain was no longer acceptable. The use of patronage as a tool to control and exploit access to such gain was to be contained.

The 1866 Act followed the slow implementation of the Northcote-Trevelyan reforms of the British Civil Service (Edwards, 2011) as proposed originally in 1853 (Fulton, Cmnd 3638, 1968), and their earlier implementation in India as a result of Lord Macaulay's 1854 recommendation on the government of India. These latter reforms were designed to provide a high integrity public service, governing by consent (Edwards, 2011). Like them, the genesis of the 1866 Act was in the work of the 'Parliamentary Select Committee on Public Monies' (HC 279, 1857) in the 1850s.

The prime design parameter of the 1866 Act was robustness against impropriety. It set standards of administrative control and integrity that were hard to better at that time. A key feature was the separation of powers. The specifications of requirement were separated from decisions on the contractual means to satisfy them, and both of these were separated from payment. All spending had to be decided by a group drawn from what were three distinct cultures in three distinct hierarchies. This is still the case at the Ministry of Defence (MoD) to this day, where Commitments staff specify a requirement, Procurement staff specify the means to achieve it, and Finance staff determine its affordability. This process is echoed on the next level of military decision-making: MoD proposes a solution, the Treasury proposes how to finance it, and the Comptroller and Auditor General (C&AG), established by the 1866 Act, authorises payment on behalf of the Parliament.

The changes made were intended to eliminate the following: risks to probity and VFM in contracting out government; risks to military effectiveness from eliminating untried private contractors; and risks to efficiency, by using the free market⁶.

The Act was a rather slow response to a sequence of public financial scandals going back decades. The 1866 Act originated in the Committee on Public Monies' strong desire for legislative action on both probity and performance. The 1857 report had quickly led to the setting up of the Public Accounts Committee (PAC) of the House of Commons, but no

⁶ Changes observable in the 1980s and 90s, however, reinstated these approaches, putting military logistics back in the hands of private contractors, on the reasoning that competition between contractors would create quality results (Cmnd. 1730, 1991). This exposes government to the corrupting influences that the nineteenth-century reforms sought to eliminate.

legislation was forthcoming, despite the PAC's annual request for it (HC PAC reports for 1861-1865) and the Treasury's own expressed commitment to get on with it⁷. In spite of the parliamentary will (Hansard, 9 Aug 1860), successive governments resisted legislative change, arguing in the PAC that staff were ill or too busy, or that administrative change was sufficient to the task. The Edmunds case of 1865 ended such resistance. Edmunds, an officer of the Patent Office, had paid patent fees into his own personal account for over a decade without detection (Hansard, House of Lords, May 1865).

The resulting Act dealt with accounting and audit; however, it was a lever to support the wider reform of the public sector based on the Northcote-Trevelyan reforms of the state's personnel and organizational systems (Edwards, 2011).

The intention was to make corrupting the system impossible. Appointments were made by an examination run by an external commission. On appointment, staff were allocated to departments arbitrarily uncontrolled by politicians or senior civil servants. Nepotism was thus impossible. When appointed to a department, staff never stayed in one post for more than three years. They rarely worked for any single boss for an extended time. Promotion did not depend on connections but on performance in the job over a number of years under different bosses. Those responsible for external procurement were divided into distinct groups with no overlap. One group specified what was required. A distinct group specified who could meet that requirement and yet another group made the payment. This, coupled with the described staff rotation, made it impossible to externally fix the result on a contract award or any other matter.

The second prong of the reforms focused on accounting. Andersen in his evidence to the Treasury's 1856 Committee on Public Monies, made clear that while the government's accountability to Parliament may have existed *de jure* it did not *de facto*. The 1789 Act of Settlement had established annual accounts *de jure*. No finance acts had constitutional currency beyond one year. This ensured annual parliaments were necessary to re-legislate for the finance required for government to continue. However, *de facto*, unexpended resources could be carried forward year to year in bank accounts, stocks or property that could be disposed of without parliamentary consent (the Navy in the late 1880s introduced a new and controversial system of appropriation accounting that allowed some flexibility, Funnell and Chwastiak, 2010). Book credit or debit entries could be delayed or brought forward as and when the Treasury or government saw fit. The variations so permitted in accounting practice limited the

⁷ PRO T1/6174, Minute No 21031 27 Dec 1858 pp 9-14

impact of oversight on the probity achievable by the legislature. This was a key focus of the Committee on Public Monies' deliberations from 1856-1857 (HC 279, 1857).

The 1866 Act belatedly established the actuality, rather than the mere idea, of 'annuality' and marked the legislature's determination to constrain government to probity. Government slackness had allowed irregularities to occur in public affairs, contrary to Parliament's wishes. The 1866 Act was designed to ensure that governments only had administrative authority if they paid regard to Parliament and so probity, and then only for a single year. It set limits on the role accruals and other commercial credit-generating practices could play in public sector finance, accounting and auditing. It specified precisely which accounts were or were not allowed or kept. Accruals were explicitly banned (also because they require more accounting staff), and physical cash exchanged was to be the sole basis for the accounts (Dewar and Funnell, 2017, p107). Probity in spending would thus be of the highest order but public sector performance was difficult to monitor. No record was required of the detailed allocation of cash to purposes, only to means.

This raised the potential for government to be unaccountably ineffective or inefficient and operate without evident economy. For example, the resource cost of operations by the State is often dependent on assets acquired and accounted for in cash in earlier times. Departments could provide services free to each other. The Post Office and the Stationery Office were funded by direct vote. They provided their service free to all other departments. This disguised the real cost of servicing other departments provided. Accruals accounting would provide better understanding of value created or destroyed within the boundary of the public sector. The consequences of these reforms are treated in the next section.

6 1867-1920: the Boer war and first world war

The period between 1867 and 1920 was characterised by high probity and low performance. This eventually triggered the 1921 change in focus to performance. The centralised system of bureaucratic accountability put into practice in 1866 had practical deficiencies. Here we will consider two examples, The Boer War of 1899, and the First World War of 1914 to 1918.

During the Boer War, the centralised system described previously broke down completely (Esher, Cmnd. 1968, 1968-1 and 2002 of 1904). It proved impractical to centralise resource acquisition and allocation in what was a fluid guerrilla war (Raugh, 2004). Probity-enhancing constraints on local initiative that were created in peacetime limited army officers' opportunities to learn how to manage the resource allocation and financial control tasks that would be delegated to them during a war. The Army was in a war in South Africa conducted at a distance from Whitehall. It proved ineffective at managing necessary local acquisition and husbanding the resources required to sustain combat (Raugh, 2004; Fraser, 2016).

The Esher Report of 1904, which enquired into the causes of this waste, emphasised the need for devolved responsibility and authority in peace as a means to train for war. This was seen as a pre-requisite to the achievement of the probity and performance required for the successful conduct of war. The report recommended a decentralised organizational structure for the Army and the extensive use of accountable decentralised resource management in peace.

When money is doled out in compartments and no discretion as to allocation is permitted, savings are not likely to accrue. In the case, however, in which some measure of financial responsibility has been accorded to officers, marked regard for economy has been manifested (War Office Reconstitution Committee, 1904, Part II, par. 8, p50-51).

Or, similarly,

While the present system of financial control is futile in peace, it is ruinous in war. Officers unaccustomed to bear any financial responsibility, and ruled by excessively complex regulations, cannot at once improvise a system for the control of expenditure in the field, when the restraints are suddenly removed. The result, as in South Africa, is the waste of millions (War Office Reconstitution Committee, 1904, Part II, par. 9, p51).

This theme continued into the First World War, during which the Army proved organizationally ineffective (Bond, 2002; Usher, 2006). One consequence was the War Office

lost power to alternative institutions that offered efficiency and economy. The result was the attempt to spend less for the sake of economy, regardless of efficiency or effectiveness.

This is clear in the evidence given to the Select Committee on National Expenditure in 1918 (HC 1918). The system conceived to ensure probity in the 1866 Act proved singularly ineffective at ensuring money was well, as opposed to properly, spent. Considerable pressure ensued to institute management principles backed up with commercial accounting systems.

We cannot make much use of the appropriation accounts for administrative purposes; we rely on the commercial accounts. (Sir Charles King, C.B., Comptroller and Accountant General of the Post Office, HC, 1918).

I do not think Estimates as furnished in the past to Parliament are worth the paper they are written on from the point of view of parliamentary control. (Mr S. Dannreuther, CB Accounting Officer of the Ministry of Munitions, HC 1918).

You cannot get any real control of expenditure by cash issues or cash payments excluding such factors as liabilities, consumption from stock and things of that sort. You cannot control administration by controlling expenses on subjects. If you want to control administration by appropriation you must appropriate by objects. (Sir Charles Harris, K.C.B, Assistant Financial Secretary to the War Office, HC 1918).

The large amount of war spending generated ‘the most significant reduction in Parliament’s wartime control over funding’: the use of Votes of Credit and the shift to sample checks and decentralised auditing (Dewar and Funnell, 2017 p.140).

Having instituted organizational decentralisation prior to the War, the Army followed through by instituting a devolved system of management accounts and budgets in 1919, as a result of the recommendation of the Committee on National Expenditure (HC 1918). Cash, and later accrued expenditure, were related to defined Army outputs, as well as inputs (Hilton and Gillibrand, 1998). In theory, such a system frees the service provider to deal with delegated tasks constrained by budget alone⁸. To balance this freedom, they are to be held rigorously to ex post accounts for VFM. However, the 1919 system went further. It introduced accruals accounts that replaced cash accounts. The intention was to economise on staff by eliminating bureaucratic controls over every line item. Budgetary control over operationally coherent blocks of expenditure was to be substituted. Line item control was left to the Government

⁸ The cash system instituted then was identical to that set up in the 1990s, as part of what the MoD called its New Management Strategy, announced in 1991.

authority of an accountable line manager. This whole process had the added democratic virtue, from Parliament's perspective, of eliminating the one remaining barrier to annuality then existing in the state machine: the War Office's contingency stocks.

Sir Charles Harris, the Financial Secretary to the War Office, was very clear on the democratic virtue of the system he was implementing (Hilton and Gillibrand, 1998). By diverting finance from stock enhancement or maintenance it was possible for the War Office, and later the MoD, to take budget cuts while sustaining spending in politically advantageous areas, such as military manpower and equipment. Stocks would be run down to achieve this. While they lasted the ministers, the civil servants and the military could sustain the appearance, if not the reality, of a significant military capability despite legislated cuts in expenditure. However, if forces ever had to be deployed, then problems quickly became apparent.

We next deal with the reform triggered by these events, leading to low probity with no evident performance improvement.

7 The 1921 act: power moves to the Treasury

The 1921 Act (comprising the abolition of accruals and centralisation) came at a time when the government was provoking unrest in public service by introducing the Whitley System of industrial relations, orchestrated by the Treasury.

The 1921 Act was also seen as providing legitimisation, *ex post*, of government action by the Treasury and the Exchequer and Audit Department (the predecessor of the National Audit Office, NAO) in the late 19th and early 20th centuries (Acland Committee Report 1920/21, Cmnd. 1383) on the form and structure of the accounts and the NAO. The Treasury files also indicate that it saw the attempt at parliamentary-orientated management principles contained in the Army experiment on full cost accruals accounting as especially awkward and expensive – particularly if applied, as Parliament intended, to government as a whole (HC 1918 (Hilton and Gillibrand, 1998). The Treasury's file on the original draft of the Acland Committee's report deliberately deleted references to this approach. For example, paragraph 5 of the Acland Committee Report originally read:

5. In the second place there has been **considerable extension of the application of cost accounting and expense accounting to the Public Service, and in particular** a great expansion in the keeping of accounts in commercial form... (Acland Committee Draft Report, PRO, T160/54/F1997, bold phrase edited out by Treasury.)

The 1921 Act did not just finesse change; it legitimised *ex post* government decisions and limited the availability of information useful to legislative oversight, thereby enhancing Treasury power. It effectively underpinned efforts made to effect public service economies by government edict, the so-called 1921 Geddes Axe,⁹ by strengthening the Treasury's hand.

The Act came as government and parliamentary powers were tightening systems made slack from the pressures of war.

....the regularity of vouchers and of kindred matters is still below the peace standard in some cases, and the establishments still above those of a normal year. In all these respects we urge that great efforts must be made by all concerned to secure the utmost regularity and economy in the accounts and expenditure of the current year. (Select Committee on Public Accounts, 3rd Report Aug. 1921)

⁹ Eric Campbell Geddes was a British businessman and Conservative politician who served as the first Minister of Transport between 1919 and 1921, in which position he was responsible for the deep public spending cuts known as the 'Geddes Axe'.

Public spending was under pressure (Dewar and Funnell, 2017 p.146). The Parliament was against accounting reforms that decentralised accountability and relied on accruals. In its view, these undermined its own necessary insight into the public sector's use and disposal of cash (Hilton and Gillibrand, 1998). Power requires knowledge unavailable to others (Loft, 1986), through the 1921 Act the Treasury minimised the knowledge available to others and enhanced that available to itself. This was despite the firm recommendation of Parliament's wartime National Expenditure Committee, that to effectively oversee government it needed published accruals, and detailed cost accounts (HC 1918). Parliament had felt these could be provided along the lines demonstrated as possible by Sir Charles Harris of the War Office in his evidence to that Committee (HC 1918). The Committee believed this was the only means to ensure performance.

The Whitley Committee on industrial relations, set up in 1919, was similarly centralising. It gave the Treasury effective control of the personnel management of all public services. It entailed a collective bargaining system, to set Civil Service rates of pay and conditions. This gave central Treasury control of a reorganization of the state machine. In this context the Treasury successfully pushed for greater control over the C&AG and his staff. This is reflected in Sections 1 (2), 1(3), 3(1), 3(2), 4(1) and 5(1) of the 1921 Act. These sections allow the Treasury to direct the form of the accounts. It could also direct what the C&AG should audit. While the Act left the C&AG's salary and conditions in Parliament's control (Section 7(1) – E & A Dept. Act 1921), his staff were subjected to Treasury Control:

8 (1) The Comptroller and Auditor General may appoint such officers and servants as he may, with the sanction of the Treasury, determine. (2) There shall, out of moneys provided by Parliament, be paid to the officers and servants appointed under this section such salaries as the Treasury may determine. (HC Exchequer and Audit Department Act 1921)

This clearly undermined audit independence from the government and proprietorial parliamentary oversight of public expenditure. It is tantamount to the staff used by a company's auditors being employees of the audited company and under its direct control.

The 1921 Act shaped the next 60 years of interaction between the legislature and government, as is described in the next section.

8 1922-1982: the Second World War and the end of the cold war

Manifest deficiencies in deployment ability and sustainability were protected from public view by cash accounts. The Treasury of the 1920s seemed willing to sacrifice performance and probity in the name of economy, enhancing its own power at the expense of Parliament's.

In the 1924/25 review of this system it was not evident that savings were based on what *would have been* spent if the system had not been instituted rather than the actual spending according to the actual system. This is clear from the speech Sir L. Worthington-Evans, Secretary of State for War, made on the subject to the House of Commons (Hansard, March 1926, p984). The need to economise drove the Treasury and eventually Parliament to seek savings from discontinuing the process of double accounting the system entailed. It required two sets of accounts: one cash set, for the Treasury, and one accruals, for the War Office. The system was abandoned in 1925 (HC PAC, 15 December 1925). In addition, stronger Treasury, and so government, controls were implemented by the 1921 Exchequer and Audit Act. Instead of decentralising, control was centralised.

The War Office's, and the wartime Parliament's (HC, 1918) desire to use parliamentary accountable empowerment and accruals to enhance government efficiency thus came to nothing. All spending and accounting had to be sanctioned by the Treasury. Also, as auditing was brought under Treasury direction, it deteriorated from a legislative oversight perspective into a formality. The 1921 Act merely confirmed *de jure* what had already occurred *de facto*, i.e. the loss of the parliamentary ascendancy the 1866 Act had intended to establish.

A brief attempt was made immediately after the Second World War to reintroduce modern commercial accounting and audit into government at the behest of Sir Hardman Lever, a member of the post-war socialist government. He had been a management accountant and senior manager in the Ministry of Munitions during the First World War, before becoming Treasury Minister in Lloyd George's coalition government. In spite of his qualifications, his 1945 project for reform was still-born. The Treasury was unhappy about the whole enterprise and wrote terms of reference that severely limited the freedom of action of the Crick Committee (Cmnd. 7969, 1950), set up to carry the idea forward¹⁰.

However, it was evident to Parliament that its capacity to control public expenditure and bring government to account was being undermined due to the growth of the Welfare State

¹⁰ Accruals accounts were removed from consideration in all subsequent proposals for reform in government administration, accounting and auditing, until a Treasury White Paper of 1995 (Cmnd. 2629, 1995).

(Burrows and Cobbin, 2009) and the expanded peacetime Cold War role for the military (Dewar and Funnell, 2017, p.176). With no concomitant change in the management and organization of the legislature's system of governance, this increase in workload swamped its capacity to act effectively, further enhancing the power of the government and its principal financial controlling instrument, the Treasury.

By dint of the increase in workload consequent to the birth of the Welfare State (Burrows and Cobbin, 2009), Parliament and the C&AG lost nearly all their residual capacity to bring government to account. Even the political level of government found difficulty in subjecting expenditure to scrutiny and, in turn, subjugating the Treasury to political control. Successive attempts were made to control Treasury power, first in the 1960s by creating a Department of Economic Affairs to take over its macroeconomic management function (Cmnd 2764, 1965), and then, in the 1970s, of its Civil Service personnel management function, as recommended by Fulton (Cmnd 3638, 1968) and made manifest in setting up the Civil Service Department.

In 1961 the Control of Public Expenditure Committee, chaired by Baron Plowden¹¹, published its report. The recommendations required the government to plan to use scientific management. Parliament was to be provided with economic- and policy-orientated forecasts as a basis for critiquing the government's expenditure plans. Plowden intended to control the budget and VFM ex ante. This was not achieved. Public expenditure remained out of control. The processes of economic forecasting and the Public Expenditure Survey (PES), recommended to prioritise state expenditure, proved ineffective in achieving better expenditure control.

Plowden's recommendations changed the focus of parliamentary and therefore government attention unhelpfully. It encouraged the scrutiny of inevitably problematic intentions, not accountability for demonstrable delivery. This undermines one of the key elements of effective management: its concern for accountable delivery. Audit became not only a formality but an irrelevant one (Normanton, 1966). This shift in concern from auditable actualities to the 'scrutinisation' of future intentions confirmed the 1921 Act's treatment of audit as a creature of government. Consequently, legislative audit made less and less impact on the government's processes and was increasingly ineffective as an instrument of governance.

¹¹ Edwin Plowden during the war served in the Ministry of Economic Warfare, and Ministry of Aircraft Production. After the war he briefly left government for his previous profession in the private sector. But in 1947 he was appointed Chief Planning Officer to the Cabinet Office. Plowden led the in March 1947 Central Economic Planning Staff for over six years.

This ensured the continued absence of any evidence of effective management in public administration.

By now the institutional path was shifting again as the result of a new relative power-balance between actors and other external factors such as the likelihood of war (Bujaki, 2015; Dewar and Funnell, 2017 p.2), the new nature of war and a new period of austerity.

Thatcher employed the chief executive of Marks & Spencer in a role of advisor for the improvement of efficiency in government (Burrows and Cobbin, 2009) nevertheless she was not particularly interested in audit reforms. The Treasury and Civil Service Committee (1982) insisted to make sure that audit was outside the remit and the influence of the Treasury, but she had no plans to give to auditing priority in her ambitious legislative schedule (Dewar and Funnell, 2017 p.231). In fact, the 1983 Act started its process as a Private Member Bill.

9 The 1983 act: towards probity and performance

The 1983 Act was passed under the Thatcher government in the same year as the Financial Management Initiative (HC 61, 1986/87). The latter sought, through government action, to effect organizational change by devolving authority and responsibility within the bureaucracy. The idea was to empower public servants to act to achieve greater performance, effectiveness and efficiency, in a system intended to promote management practices (Gray & Jenkins, 1983). This could be at the expense of proprietorial control by Parliament. The House of Commons was originally happy to leave audit to the Government, and the original interest was predominantly on checking that expenses had not exceeded what was authorised in Parliament. The awareness of the importance of an independent audit organization emerged later. Equally, there was disagreement on the independent nature of the C&AG. Gladstone, for instance, was against it (Dewar and Funnell, 2017 p.79, 104).

The 1983 Act, like the 1866 Act, took some time to put through. There was a rooted view that public services were ineffectively delivered at unacceptable cost. It was felt that management practices had a role to play in government. The Eleventh Report of the House of Commons's Expenditure Committee (HC 5353, 1977) noted that the US's Government Accounting Office (GAO) had a wider remit than the NAO: it encompassed performance, or VFM. The lack of legal basis for the NAO's audit of VFM was seen as a deficiency of the UK system. In a Green Paper (Cmnd 7845, 1981) and a later White Paper (Cmnd 8323, 1981), the government rejected, as had government in the 1850s, the need for legislative reform. They argued that ministerial responsibility was the proper means to sustain parliamentary accountability, echoing attitudes like those held prior to the 1866 Act. The Government felt that a review of audit would achieve the best results. In the end, a Private Member Bill was introduced to take the matter forward. The resulting Act re-focused NAO activity, it gave it a clear performance remit for audit and a new governance. This was taken from Government and the Treasury and given to Parliament.

The 1983 Act re-established parliamentary control over audit. The Act provides the NAO's budget direct from Parliament. A parliamentary governing body assured the NAO independence of government and appointed its own auditors of the NAO. The Act's effectiveness was sealed by giving the NAO direct control of its own personnel. In setting

accounting, budgetary and financial standards, the government's power may be in the Treasury but the legislature's is in the National Audit Office¹².

The National Audit Act is a good example of the procedural nature of the logics in this story. The Act, approved by large majority, started the legislative process as a Private Member initiative. This is unusual for such an important piece of legislation and is was partially due to lack of interest by Margaret Thatcher. The drafting, debate and approval was strongly characterised by individual contributions (Dewar and Funnell, 2017, p232). The negotiation between Parliament and Treasury settled over an agreed design of NAO that endorsed national auditing to focus on both probity and performance. The design features discussed included staffing, funding, governance, powers of inspection, overall remit, and the criteria to be used for the assessment of effectiveness, the value for money examinations.

Dewar and Funnell describe in detail the long history of 'advance and retreat in the financial supremacy of the Parliament' (2017, p.32). From its establishment, the role of the NAO was set to helping Parliament hold government to account. This is still the case and this expression is used by the NAO itself in official documents. Nevertheless, NAO is today officially committed to both probity and performance: we 'focus on the presentation and accuracy of accounts to ensuring that funds are spent only for purposes approved by Parliament and that resources have been used efficiently, effectively, and with economy' (Sir Amyas Morse, C&AG, in Dewar and Funnell, 2017).

Before the Resource Accounting and Budgeting (RAB) initiative, the British system of public sector accounting and audit was based on the idea that cash transfers are the only concretely verifiable transactions. Cash was seen as a far more robust basis for accounting and audit than an organization's own paper records of debits and credits and notional charges for capital consumption. On this basis the 1866 Act saw accruals as unacceptable and quite deliberately made cash the sole basis for appropriations by the state and the accountability of the government to the legislature for appropriations.

The 1921 Act was conceived in a manner explicitly antagonistic to the whole idea of accruals accounting. The Treasury took specific action to exclude explicit reference to accruals from the Act, despite the fact that the Act was implemented at a time when a major experiment in accruals accounting instigated by the House of Commons was operating in the Army. This had been intended to become general (HC 1918). Accruals did not feature at all in the thinking

¹² The predecessor of NAO, the Exchequer and Audit Department (E&AD), was created in 1866 by a legislature which needed probity and was exasperated by government claims of action that only materialised in more impropriety. The government, through the Treasury, never let go of its claim to be the best advocate of economy, and in the 1921 Act reclaimed its ascendancy.

evident in the construction of the 1983 Act. The academic literature on the introduction of accruals accounting in the public sector is now rich both in describing the successes of this practice (Robinson, 1998; Guthrie, 1998) and in analysing its risks and negative implications (Ellwood, 2007; Connolly and Hyndman, 2006).

The Treasury saw its power attenuated by legislative action while the legislature saw the Treasury as acting improperly. In 1854 the Treasury maintained that any system should:

...be based on confidence in the government and let the controlling and responsible department of state [i.e. the Treasury] have full freedom of action. (Memo on Financial Control to Select Committee on Public Monies Anderson Treasury, 27 Mar 1854).

But the then Comptroller General of the Exchequer who acted for the legislature disagreed:

I utterly reject this principle. I deny such confidence in the executive Government is, has, or ought to be recognised in any free state. I deny that it has ever been from the earliest times a principle adopted in the British Constitution. On the contrary it is constitutional jealousy and not confidence, upon which our institutions are founded and on which the safety of the liberties of England depend. (Comptroller General of the Exchequer, Evidence to the Committee on Public Monies, June, 1857)

The latter view prevailed in the 1866 Act. The 1921 Act was a successful attempt to reassert the Treasury's ascendancy over the system to aid the government's drive for austerity by centralising financial control and power consistent with Loft's thesis (Loft, 1986). The Treasury was given de facto authority over personnel and accounting at the expense of the legislative authority established de jure in 1866. The 1983 Act gave this power back to Parliament.

In a way, scrutiny of probity and scrutiny of performance were again united: control of probity was returned to Parliament, and the chance to measure performance to the National Audit Office. By then, actors agreed on the importance to focus on both logics and signalled their intention to compromise and make it possible:

There is a heavy responsibility on those in public life to maintain and improve standards in the public service. We must do our best to overcome the dangers of a civil service that might consider itself from time to time undervalued. That brings me to the first point that I wish to make. The prime aspect of the control of expenditure is to eliminate or reduce to the absolute minimum the possibilities of fraud and the lack of probity within the civil service. That must be a continuing aspect of our work. Value for money and saving money are of enormous importance and are a major preoccupation of the Committee, but even

more important are the standards in the public service. We pride ourselves naturally and rightly on our standards. (Mr. Robert Sheldon MP, Debate on Public Accounts Committee reports, October, 1992)

In July 1998, at the end of this 150-year-long history, the British Government published a policy document called Strategic Defence Review (SDR). This document describes military procurement as a challenging sector where both probity and performance are crucial:

The SDR devotes considerable importance to achieving 'faster, cheaper and better' defence procurement as, in the Defence Secretary's words, 'too often in the past our new equipment has been too expensive and delivered too late'. As the SDR points out, 'The 1997 National Audit Office (NAO) report on major programmes reported an average delay of 37 months, unchanged from 1996'. The costs of the 25 major projects identified in the NAO report have registered a 7.5-8.5 per cent overrun over original estimates in each of the last three years. ... The defence ministry's capacity to waste money is legendary. Procurement is a dismal story of delays and extortion. The defence contractors, assured their prosperity is vital to national security, have a captive customer and no incentive to cut costs. (House of Commons, 1998, p. 158)

The quality of the supplies is not mentioned but as far as price, speed, relationship with industry, and cost are concerned, these issues resemble those mentioned earlier in this article. The SDR White Paper reported that according to the MoD and the NAO the main causes of procurement problems were:

– slippage due to technical difficulties, budgetary constraints leading to the postponement of expenditure, the redefinition of requirements and difficulties over collaborative programmes; – cost over-runs due to programme changes, changes in equipment specification, poor estimating and inflation of prices for defence equipment in excess of inflation in the economy as a whole. (House of Commons, 1998, p. 158)

Nevertheless, the institutions involved in the SDR appear to agree that other countries were facing similar challenges and that, after all, the British government was doing well:

This situation may appear bleak but other countries also encounter problems in defence procurement. The NAO reviewed procurement practices in 11 other countries in 1994 and concluded that relatively, and particularly in terms of the pursuit of competition, the Department was performing well. (House of Commons, 1998, p. 49)

The Strategic Defence Review of 1998 also confirms that the nature and the likelihood of war is a key external factor that influences the actors and in turn the accounting institution:

The SDR also suggests other changes to procurement. This includes a new through-life approach to procurement decisions. During the Cold War, it was often felt necessary to rush equipment into development and production to meet a particular perceived Soviet threat. In today's threat environment, the MoD can spend more time assessing a concept and a project before authorising development. Better project planning and estimating may reduce the risks of later overruns and delays. Procurement may also now be incremental, that is, instead of waiting to introduce an item into service until optimum performance has been achieved, equipment will initially be accepted with less ambitious capability. Taking account of rapid changes in technology, the equipment will be upgraded incrementally, rather than awaiting large mid-life upgrades. The MoD also intends that future contracts will be less inflationary. (House of Commons, 1998, p. 50)

The establishment of the NAO and its governance are testimony of the process of interaction between Parliament and Treasury that contributed to the development of a compromise that is well established today. The current public-spending handbook adopted by the Treasury explicitly argues for the need to achieve simultaneously probity and performance. The standards expected of all public services are:

Honesty, impartiality, openness, accountability, accuracy, fairness, integrity, transparency, objectivity, reliability, carried out in the spirit of, as well as to the letter of, the law in the public interest to high ethical standards achieving value for money. (H.M. Treasury, 2022, p.3)

And as far as the methods:

The standard approach is to set charges to recover full costs. Cost should be calculated on an accruals basis, including overheads, depreciation ... and the cost of capital. (H.M. Treasury, 2022, p.42)

This double emphasis on both performance and probity applies to the C&AG as well, since it is asked to provide Parliament with two sorts of audit:

-financial audit of the accounts of departments and ALBs, covering assurance that accounts have been properly prepared and are free of material misstatements; and confirmation that the underlying transactions have appropriate parliamentary authority;

-value for money reports assessing the economy, efficiency and effectiveness with which public money has been deployed in selected areas of public business. A programme of these reviews covers a variety of subjects over a period, taking account of the risks to value for money and Parliament's interests. (H.M. Treasury, 2022, p.6)

10 Findings

The 1866 Act was aimed at increasing probity. Nevertheless, the First World War generated large spending that proved incompatible with checks of every single spending procedure (Dewar and Funnell, 2017, p145). During the war many exceptions were made to give priority to assuring effective spending. Treasury and Parliament agreed that accounting inaccuracies and mistakes were to be considered a problem of secondary importance in those circumstances (Dewar and Funnell, 2017, p145). Similar settlements happened when the actors agreed on the cost opportunity of following one principle or another. Those frequent interactions generated degrees of pragmatism and flexibility in the system (Dewar and Funnell, 2017, p166).

The negotiation of values and meaning is crucial, especially when war is involved: ‘any accounting for violence and war first involves an understanding of how certain values and ideas, and not others, have come to shape and dominate our culture and institutions and how these in turn have impacted the way we account’ (Chwastiak and Lehman, 2008).

After the war systematic checks were reintroduced for a short time since the 1921 Act aimed at focusing on performance, with only sample checks. It was in 1983 that a mixed cash-accruals system was introduced, with an independent NAO looking simultaneously at efficiency, economy and effectiveness. It took centuries of incremental steps to reach this goal in the audit of public spending (Dewar & Funnell, 2017, p.1).

This paper dealt with the supposed contradiction between probity and performance in the history of the British War Office and Ministry of Defence. We challenged existing understandings of how logics of accounting function. In our case, in our ‘field of play’, institutionalization and change are the result of actors’ rivalry in the political arena, an arena constitutionally characterized by conflict and lack of trust. For a long time, the actors narrated in this story argued and acted as if probity and performance were incompatible. We have presented evidence that in contemporary documents the two are now treated as compatible and equally important. Before that, ‘incompatibility’ was a rhetorical, or procedural, device.

In 1857 the Comptroller General of the Exchequer explained that British institutional architecture was not based on trust, but rather on its opposite (Comptroller General of the Exchequer, Evidence to the Committee on Public Monies, June 1857).

The establishment of the NAO was equally characterised by this lack of trust. In the preparation of the Act, the Parliament wanted to make sure that NAO’s governance and

resources would allow it to be independent from the Treasury. On the other side, the Treasury tried to maintain as much influence as possible (Dewar & Funnell, 2017, p.161).

The lack of trust between British institutions is frequently and explicitly raised during the parliamentary debates on the Exchequer and Audit Acts (Hansard 1866, 1921). In an 1866 debate on the Exchequer and Audit Departments Bill, Sir Stafford Northcote mentioned lack of trust and Lord Montagu mentioned again the sentiment of jealousy:

That was just one of those questions upon which they were bound in duty not to trust the Government, but rather if they might say so, to distrust it. (Exchequer and Audit Departments Bill, March, 1866)

The jealousy of the Treasury was still seen in this Bill – it was the most powerful, jealous and encroaching of all the Departments, and therefore it ought to be vigilantly watched by the house. (Exchequer and Audit Departments Bill, May, 1866)

Analysing the events leading to and from each Act, we argue that the institutional trajectory oscillated (Thornton & Ocasio, 1999; Ponte and Pesci, 2021) because, alongside the relative power of actors, other sector specific external institutional factors played a role: presence of war, likelihood of war (Bujaki, 2015; Dewar and Funnell, 2017 p.2, p.28), nature of the war, the presence of austerity discourses.

Preparing for war carries the inevitable contradiction of managing socially unproductive activities that are instead commercially profitable for capitalists. The unknown dimension, position and intent of the enemy oblige Armies to deploy more resources than are strictly needed to perform. The Army's concern has always been effectiveness not efficiency. What is necessary for war is highly unpredictable and research and development and unproductive overheads are more acceptable as the risk of war becomes more real. Thus, the focus is on probity and formal bureaucratic control and savings when war seems unlikely, switching to a focus on performance when it is considered more likely, or occurs.

Not least the accounting and auditing practices were disrupted by the presence of war because on those occasions the number of documents and resources to scrutinize surged as suggested by Hilton Young, Financial Secretary to the Treasury in the House of Commons in 1921:

As the House well knows, the Comptroller and Auditor-General is a person independent of the Executive and a servant of this House. Sir Henry J. Gibson's long service in that office covered the particular and great difficulties of the War period, when the magnitude

of the public expenditure was enormous, and the difficulties of audit unparalleled in the history of the office. (Exchequer and Audit Departments Bill, August 1921)

Contrast between the money holders, the Legislature and the Government is a normal dynamic, for it is normal that each institution pursues what it considers a priority. The story of military spending since the 1850s has shown that excessive emphasis on any one feature can prove very expensive in terms of rectitude, results and resources consumed.

The questions addressed in this paper matter to those interested in how public sector reform might influence behaviours to improve performance. It remains desirable to achieve an optimum of probity and performance. The evidence suggests that this is possible and it was agreed by actors in the text of the 1983 Act and ever since.

11 Conclusions

The purpose of this paper was to describe how the three acts produced a shift between two institutional logics. To do so, we have used Quattrone's approach in a context other than the original one and his method has proved helpful in giving sense to the development of agreed meanings and functioning of institutional logics. In his case a padlock with two keys:

Ensured that every cash movement, and its record in the accounting books, could happen only after a continuous mediation and discussion of the potential uses of the funds for which the Procurator and the Rector acted as spokespersons, e.g., pragmatic needs related to running the college, political matters related to the Jesuit influence on the local community, and pedagogical and religious concerns. (Quattrone, 2015, p.433)

In our case the House of Commons was the venue of collective rituals that generated pieces of legislation, but also agreed meanings that resulted from sometimes intense confrontation, as shown by archive documents. This procedural nature of the logics is visible also in the governance arrangements of the NAO. The Public Accounts Commission (TPAC), the commissioning body for NAO, is chaired by the most senior government MP sitting on the Public Accounts Committee (PAC). The Commission (TPAC) approves the funding of NAO and oversees its governance. The chairman of the PAC instead belongs to the main opposition party and, as a parliamentary body, holds government officials to account for the economy, efficiency and effectiveness of public spending, drawing on the work of the National Audit Office.

The intricate history narrated in this article, the complex organizational design of the institutions involved in the national auditing, the crucial role played by individuals across time, testifies that accounting and auditing cannot rely on mathematical formulas, algorithms, or absolute principles. The British Navy, for instance, was traditionally treated differently from the Army because it was strategically more crucial in the defence of an island and because it never represented a threat to the Parliament or the Nation's liberty (Funnell and Chwastiak, 2010).

The logics of measurement of public spending, especially during periods of war, have been discussed, negotiated, interpreted, and renewed across centuries in part because multiple interpretations are possible. In some cases a judgement of a political nature is required and this occurred in an early modern Sicilian Jesuit college as in contemporary Britain.

Our archive material tells us that in a liberal democracy the conflict between actors, institutions and powers is judged normal. It is not only tolerated but wanted and regulated. The approach based on power as a source of institutionalization is not always sufficient to understanding (DiMaggio, 1988; Garud and Kumaraswamy, 2002; Garud, Hardy, and Maguire, 2007; Hoffman, 1999; Hargadon and Douglas, 2001; 2002; Hensmans, 2003; Reay and Hinings, 2009). In line with the proposal of Quattrone (2015), institutional accounting theory can benefit from a procedural notion of logics.

Adopting the model proposed by Quattrone, the logics appeared at first substantive, when actors tried to establish their power and their ideal types. The logics then turned out to be procedural, in the sense that both actors knew that it would be impossible to establish their permanent or absolute supremacy. During those 150 years, this awareness allowed actors to agree on different combinations of probity and performance that were believed optimal in that moment and context, to eventually settle on compromise versions of the logics in the 1983 act that was written in Parliament with the participation of the Treasury.

A procedural rather than substantive notion of institutional logics is more suitable to explain an institutional trajectory that was the result of constant negotiation among actors. This is especially the case because their relative power to shape the social order changed constantly, depending on external factors such as the likelihood and nature of war, and the presence of an austerity discourse. As the Jesuit order described by Quattrone (2015) successfully benefited from a procedural notion of logics, the ‘constitutional order’ described in this paper resulted from the ability to open and close towards one or the other ideal types of logics, depending on historical, economic, military and political contexts.

It was well known from existing literatures that public-sector accounting is traditionally influenced by military spending due to the large scale of funding involved and because of the socioeconomic and political impact of war. What has been lacking at times in the accounting or historical military literature is a sociological theory that interprets the dynamics between the actors involved in spending, auditing and reforming rules. It was by filling this gap with a specifically helpful theory and using the notion of procedural logics that we were able to reach our findings.

The limitations of this study are connected with the vast time-horizon involved. Data collection had to be very selective and data analysis had to simplify the narration of events, debates, and policymaking. Additionally, while nominally we are dealing with the same institutions, so much has changed around and inside Britain in the past 150 years.

Our work on the two alternative logics might contribute to the understanding of the increase in national defence-spending at continental level and the call for a common EU military procurement strategy that followed the invasion of Ukraine. The war could produce changes in what is a traditional tension between two logics: sovereignty or performance? The current arrangements are often inefficient because there is limited sharing of military assets, hence each nation is procuring for itself with plenty of duplications. Additionally, national procurement favours domestic producers wherever possible, hence losing the benefits of larger economies of scale and the development of European-level industrial champions. The Ukrainian war may well partially move the focus from sovereignty to performance. An appropriate industrial policy that encourages integration between national actors or joint international projects, such as the successful cases of Panavia Tornado or Horizon class ships, might reduce the perceived tension between sovereignty and performance.

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