

A submission to

**The independent review into the arrangements in place to
support the transparency and quality of local authority
financial reporting and external audit in England**

(Redmond Review)



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1. Introduction

This review is requesting views on the quality and effectiveness of the audit of local authorities in England. Local Authorities deliver public services and are required to act in the public interest. Public audit *inter alia*. is intended to allow users of local authorities accounts to hold local authorities to account for their use of public resources.

This contribution is presented in two parts.

The first part provides an explanation of the perspective that the author has adopted to evaluating changes or proposed changes to performance management regimes and their public assurance arrangements in the public services in England, and elsewhere, over the last 20 years. This perspective informs the general comments or strategic views on the current arrangements for external audit and suggestions for their improvement that follow.

The second part provides more specific responses to the specific questions that are summarised at the end of the individual chapters.

2. Public Assurance, External Audit and the context in England.

In order to determine whether current arrangements might be developed or improved it is necessary to identify the current purpose and role that public audit plays in the English context and to appreciate its strategic positioning in the inter-dependent and interrelated strategic and operational organisational landscape of public services in England.

Dewar and Funnel (2017) have articulated the history of British audit and Campbell-Smith (2008) has provided insight into the role and expansion of the former Audit Commission, which was central to the arrangements prior to the current regime. Grace and colleagues (2012) also provide a helpful commentary on the purpose and roles of public audit, as well as some of the inadequacies of the arrangements in place up to 2012.

However, the current arrangements, like the previous arrangements, need to be evaluated both holistically as well as in detail. They therefore need to be seen as part of the arrangements that collectively comprise the performance management regime for public services in England (Murphy 2019a).

Figures 1 and 2 provide a simple generic model that has been developed to help understand, evaluate and/or comment on various public sector performance regimes (or in some cases 'national frameworks'), and/or proposed changes to them, both in part and/or as a whole. It is a dynamic model as all of its elements are subject to potential changes over time. It is equally applicable to Local Authorities, as it is to healthcare, the police or the fire and rescue services. Various regulators, inspectorates and academics have requested briefings on its' content and application in the past, when considering changes to their respective regimes (Murphy 2015, Murphy and Greenhalgh 2016, Murphy and Lakoma 2018, 2019, Murphy *et al.* 2018).

The model has been used with an ‘evaluative lens’ that has been developed from the current legislative requirements of public services in England.

Performance regimes (Talbot *et al.* 2005, 2008) for individual public services or for sectors of the public services have become increasingly popular with successive governments in the UK since the mid 1990’s. Successive central administrations have periodically introduced ‘national frameworks’ or public service reforms for individual services or sectors (ODPM 2004), which Talbot (Talbot *et al.* 2005, Talbot 2008, 2010) and Martin *et al.* (2016) have characterised as performance or improvement ‘regimes’ in the academic literature.

These regimes attempted to consolidate and set out, sometimes in a single document, the government’s policy and objectives, the responsibilities, roles and expectations of delivery agencies and the monitoring, regulation and public assurance arrangements expected from the relevant organisations in the community of interest or practice.

Murphy and Lakoma (2019 p2.) define performance regimes as:-

“The context, the parameters, the agencies and the interrelationships operating within the three domains of policy development, service delivery and public assurance in public services or sectors”.

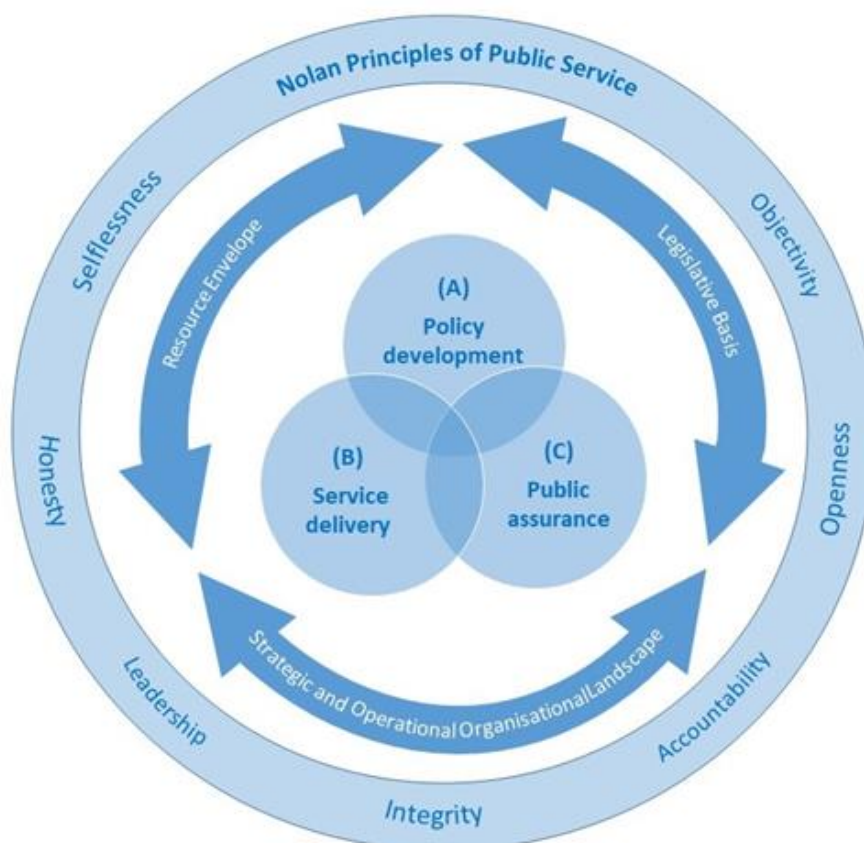


Figure 1 above illustrates the overall model. As can be seen from this diagram the model has three levels.

- The ‘principles’ or values that underpin public service.

- The situational or contextual constraints within which a particular service or set of services operates; and
- The constituent policy development, service delivery and public assurance arrangements that operate in the service or sector.

The key touchstone and underpinning assumptions for any public service framework is the public interest and the values and/or principles that are enshrined within public service.

In the UK, this is currently relatively simple to identify since anyone who works as a public office-holder or a direct or indirect employee of the public sector in the UK should adhere to the seven principles of public life known as the 'Nolan principles' (Committee on Standards in Public Life 1995). These cover selflessness, integrity, objectivity, accountability, openness, honesty and leadership and are shown in Figure 1 as the large outer circle.

In addition to these principles and values, there are situational or contextual constraints that act as the strategic parameters to the development of service frameworks and other policy/service/assurance regimes.

Most national policy documents and frameworks attempt to cover these situational issues at the start of the documents as they 'set the scene' for any proposals that follow in the main body of the policy or framework. They generally include the legislative basis that provides the authority and legitimacy for the proposals; the current or revised strategic and operational organisational landscape that the service operates within; and the resource envelope deemed to be available and the timescales (short, medium and long-term) that the framework is expected to cover. These three key contextual constraints or parameters are shown as collectively comprising the second (inner) circle on Figure 1.

Although the three key contextual constraints in the inner circle interact, influence and can affect each other, they also provide the medium term parameters for the three conceptual areas illustrated by the Venn diagram at the centre of the model, namely policy development, service delivery and public assurance.

If performance regimes or frameworks are to be comprehensive they need to be cognisant of and make provision for the three interconnected 'domains' mentioned above. These three domains do not exist in isolation and their interactions are an important part of performance regimes. The domains are shown at the conceptual core of Figure 1. They are:

- **The policy or policy development domain** – which determines the objectives of any policy, whether national, regional or local; but also identifies what the parameters to its development are and whether delivery is feasible and realistic
- **The service delivery domain** - which determines how the service is to be delivered and ideally how its delivery is to be optimised, continually improved, sustained, innovated and constructively monitored; and
- **The public assurance or regulatory domain** which shows how the public is to be provided with re-assurance that the money taken from them to finance the policy

prescriptions and the strategic and operational delivery of the service, is justified and provides value for money.

Joined-up policy development, policy making and its 'implementation, is particularly important in public services that have mutually inter-dependent responsibilities to the public at national, regional and local community levels. Efficient and effective service delivery is also equally interdependent at local, regional and national levels; and the objectives of the assurance and regulatory arrangements often need to transcend public services to address wider community or public goals and objectives such as public safety and security rather than prioritise narrower individual organisational goals and objectives.

These three inter-connected domains, which are illustrated in more detail in Figure 2, clearly have areas of overlap and some of their individual aspects or components most notably external audit (which is clearly a necessary and intrinsic aspect of external scrutiny) are common to more than one domain, in fact they are common to all three.



This illustrative model is turned into an evaluative model by adopting an appropriate evaluative lens. In the case of local authorities this is developed from some key current legislative requirements on public services in England. They are not the full legislative requirements placed upon public services (there are clearly more specific obligations applicable to particular services or sectors), but collectively they provide an appropriate the analytical or evaluative lens for locally delivered public services.

The first is the statutory requirement placed upon local authorities and other public bodies to facilitate continuous improvement across all of their services and activities, rather than (as previously) be subject to the local political dictates of their governing boards or authorities. This was first introduced in the Local Government Act 1999, which, *inter alia*, required local authorities to seek to achieve 'Best Value', although the obligation to achieve

Best Value and continuous improvement was soon extended across all significant locally delivered service public services. Thus, the first test or examination is whether or how far arrangements (or proposed changes) facilitate continuous improvement and the achievement of best value for the public.

Secondly, the obligation on public services to achieve Best Value and hence value for money has to be assessed by a combination of the 3 'e's of economy, efficiency and effectiveness. For a short time, under Gordon Brown's administration, of 2007-2010, 'equality' and 'sustainability' were added to economy, efficiency and effectiveness but subsequent governments since 2010 have reverted in policy and practice to the 3'e's.

Finally, where authorities are obliged to act collaboratively, such as when organisations have multiple and several organisational responsibility for tackling long-term deep-rooted social, economic and/or environmental issues, the obligation on all partners is to seek the optimal configuration of delivery arrangements that will facilitate best value and continuous improvement to the outcomes for the public.

This more collective and collaborative approach to policy development and public service delivery (sometimes known as the 'improvement' agenda) was also complemented by a system of internal and external audit, and the measurement and monitoring of performance intended to ensure costs were reduced and the quality of services improved (Martin 2006, Goss 2007, Ashworth *et al.* 2010). The 'public assurance' regime and the regulators that were part of it, were also (at that time) committed to continuous improvement, mutual support and co-operation.

Thus, these three objectives collectively form the evaluative lens for assessing proposed changes to performance regimes or parts of the regime whether they fall within the domains of policy development, public service delivery or public assurance.

Responses to the specific questions in the review document.

Chapter 1. Definitions of audit and users of the accounts

Q1. Who, in your opinion, are the primary users of/main audience for local authority accounts?

As the review document makes plain, at present there are multiple definitions of users, each capable of considerable interpretation.

The Audit Standards definition focusses on the legislators and regulators (but does not exclude others), while the current CIPFA Statutory Code of LA Accounting Practice 2019-2020, focuses on service recipients and their representatives as well as "resource providers and their representatives".

Ultimately, the public provide the resources (through the national and local taxation systems, grants and fees and charges) and generally they engage with local authority service activities as service users, consumers, or citizens depending on the nature of local authority provision e.g. whether statutory, discretionary, regulatory or universal. At present, each of these two perspectives is both given effect and traditionally operationalised via 'representatives' at national and local levels (both political and non-political), and in the past, elections have been the prime vehicle for citizens exerting influence in representative democracies.

However, for some time citizens have demonstrated reduced participation in representative democracies and electoral turnouts have been falling. In parallel, there has been increased pressure for improved legitimacy, accountability and transparency of government, at national and international levels. (Cain *et al.* 2003, Dalton *et al.* 2006).

There has also been increasing demands for additional and direct channels of citizen participation in public policy making, service delivery, service configuration and prioritisation. Numerous countries, including the UK, have introduced various forms of interactive and participatory governance, at national and sub-national levels such as referendums, ballots, citizen's panels and juries participatory budgeting etc. (in which citizens have been granted greater influence in public policy making) which have all found expression in the local government sector in England. [Although for example public consultation and participation in local plan making and in determining, planning applications has existed since the mid-19th century as 'public interest' law began to constrain private property law (Ashworth 1954, McAuslan 1975, 1980)].

The public now expect participatory forms democracy to supplement representative forms of policy-making in an ever-wider range of public service delivery. Finally, as the review document makes clear, local authorities are actively collaborating with a wider range of stakeholders and partners in an increasing range of hybridized and complex relationships. Nevertheless, a common factor is that they all involve spending publicly funded time or money.

In all of these areas and relationships the public expect and have the right to expect that proportionate and professional internal and external audit (as well as statutory requirements) are 'quality assuring' the data and information upon which such debates and decision-making are based.

Thus, it is clear that a new definition is required. It should put responsibility to the citizen at its core. It should incorporate the interests of three primary audiences; the public (primarily but not exclusively within the local administrative area), the government (in its multiple forms and at multiple levels) and the key stakeholders collaborating with local authorities (including other local authorities and public interest providers) where they are collectively seeking to pursue the public interest with local authorities.

Q2. Who are the other users of local authority accounts? Are any of these other users of accounts particularly important?

The review document gives examples of other potential users of local authority accounts and suggests that the numbers of such users are likely to increase. The examples include, but are not limited to, existing and potential lenders, credit ratings agencies, trade unions, statisticians, analysts, academics and think tanks with an interest in local government.

While these other users of accounts may be important, their interests are generally not synonymous, identical or coterminous with the public interest, and they also have particular interests that may or may not be the same as the public interest at any one time. The interest of existing and potential lenders, credit ratings agencies, trade unions, and think tanks are clearly partial while ‘statisticians, analysts and academics’ are far too broad and amorphous as groups to identify as having a particular interest.

Q3. What level of financial literacy/familiarity with accounts and audit is it reasonable to expect the primary users of accounts to have and what implications does this have for the information presented in accounts and/or the information that should be subject to external audit?

According to Standard & Poor’s rating services (Klapper *et al.* 2019), the countries with the highest financial literacy rates are Australia, Canada, Denmark, Finland, Germany, Israel, the Netherlands, Norway, Sweden, and the United Kingdom, where about 65 percent or more of adults are financially literate. Information produced in local authority financial statements must meet the accountability and/or decision-making needs of users and be sufficiently transparent and understandable to be interpretable by a reasonably well-informed person.

Despite this level of financial literacy, and the requirements placed on the producers, local authority accounts in the UK (and their budgeting and financial processes) have become more complex and are not as transparent to the general public as they should be and in effect have to be translated and interpreted by professional public service accountants and financial analysts.

While this interpretation and advice may be available to government and some public representatives, the general consensus is there is far too small a number of people who understand the financial provisions and the budgetary arrangements of local authorities (Murphy 2019b) and in particular its presentation in their annual accounts.

High quality, proportionate public audit is essential (although not of itself sufficient) for developing high quality public services and holding authorities to account. The current presentation and opinions on the accounts are demonstrably unfit for purpose – as the review document implicitly acknowledges. They need to be much more transparent with ‘plain English’ commentaries.

Q4. Does the external audit process cover the right things given the interests of the primary users of the accounts/is the scope of the opinions wide enough?

The external audit process should cover the short, medium and long-term use of the public resources used by the authority, rather than being focused on annual financial reporting.

It should retain a Value for Money opinion on the adequacy of systems in place to support the economy, effectiveness and efficiency in its use of resources, but (in line with the above view) this should be extended to provide an opinion on the sustainability of the financial strategy performance and arrangements of the authority. This should in turn inform an assessment of an authority's financial resilience which should replace the 'going concern' test and report.

Q5. Is the going concern opinion meaningful when assessing local authority resilience? If not, what should replace it?

The 'going concern' test and report is (as the review document makes plain) meaningless and should be expunged from requirements. In reality, it gives the public a misconception or misleading impression of 'financial security'. Its' preparation therefore wastes public money and its' inadequacies potentially undermines public, professional and elected member confidence in other parts of the external audit. It should be replaced with a robust assessment of the financial resilience of local authorities, following appropriate consideration of national and international good practice (see Steccolini et al 2017).

Chapter 2: The Expectation Gap

In chapter 2 the review document gives multiple examples of the audit expectations that are not matched (or not fully matched) by the corresponding statutory and regulatory framework. Similarly, it states that where a local authority suffers financial or service failure, this is the responsibility of elected representatives and statutory officers.

The latter is true and is also how it should be – although in the authors view they should be informed by more appropriate auditors opinions than is currently the case (as suggested above in response to chapter 1), and greater assurance as to the robustness of the data and information upon which these current opinions are based.

The examples given are

- An expectation that the audit will provide an opinion on the value for money of service delivery;
- An expectation that the audit will provide assurance over the effectiveness of service delivery;

- An expectation that the audit will provide assurance over the financial resilience of the authority;
- An expectation that the auditor will have actively sought out any evidence of fraud;
- An expectation that the auditor will have confirmed that specific grant income has been spent solely on the purposes for which it was intended; and
- An expectation that the audit opinion covers all of the financial and non-financial information included in the annual report and accounts.

The review document suggest that the gaps can be categorized into

- a. **Knowledge gap** – do users of accounts understand what the statutory framework requires auditors of local authorities to do?
- b. **Evolution gap** - is there a difference between what users of accounts expect auditors to do and what they are responsible for doing?
- c. **Quality gap** – do external auditors do the things that they are supposed to do to with and appropriate degree of knowledge, skill and rigour?

This helpful categorization assists our knowledge and understanding. However, these expectation gaps are also collective ‘systemic gaps’ across the whole policy, delivery and assurance arrangements of local authorities rather than public audit gaps per se.

They result from inadequacies or omissions in the performance management regime as a whole rather than specifically and/or exclusively from external audit. The expectations identified above, arise partly because other public performance regimes either in other sectors, in other public services or in other jurisdictions or in previous periods in the UK, that have been able to meet these expectations (partially or fully) or have claimed to do so.

Figures 1 and 2 above show how the context, the parameters, the agencies and the interrelationships operating within the public assurance domain of public services includes appropriate internal and external scrutiny, and pages 4 and 5 above show how this can be operationalised and the system evaluated for local authorities in the English context.

Omissions and inadequacies in the performance management regime should be rectified, but this review is focussed on local authority financial reporting and external audit. Only ‘gaps’ most appropriately addressed in the financial reporting and external audit arrangements of local authorities should be addressed in the financial reporting and external audit arrangements of local authorities

Q6. In your audit opinion, what should an external audit of a set of local authority financial statements cover?

The *performance regime* and the *public assurance arrangements* covering local authorities should in my opinion collectively meet all of these expectations; however, the external audit itself should cover

- a 'Value for Money' opinion which should continue to be based on the adequacy of systems in place to support the economy, effectiveness and efficiency of an authorities use of resources. This should be extended to provide an opinion on the sustainability of the financial strategy, and the arrangements the authority is making to ensure financial sustainability/resilience.
- Appropriate assurance that the internal and external audits have actively sought out any evidence of fraud and that the audit opinion covers all of the financial and non-financial information included in the annual report and accounts
- That internal and external audit have actively sought to assure the quality of data and information used to underpin the assurances above.

I recognise that the question relates to 'local authority financial statements' and my response is broader in its' scope, covering both use of resources and by implication non-financial resources and non-financial information.

Q7. In your opinion, what should the scope of the external auditor's value for money opinion be?

This is covered in the response to questions 4, 5 and 6 above.

Q8. What is your view on the scope of an external audit engagement as described in Chapters 1 and 2 of this Call for Views? If it is different from your expectations, does this have implications for the reliance you place on external audit work?

External audit arrangements are currently narrower in scope than they should be (and have been in the past) and the external engagement of external auditors with the policy, delivery and assurance of local authorities and their partners has declined significantly in the post-2010 sector-led improvement regime in local authorities.

Previously the need for and expectation of, continuous improvement based on improving evidence based policy and delivery was paramount and demonstrable in England. Since 2010, this has been replaced by a national policy of short-term cutback management, which is inherently less economic, efficient or effective than a more strategic approach. It has been based upon a deteriorating and poorer evidence base and less sophisticated interrogatory and inspection regimes (Ferry and Murphy 2015, Murphy *et al.* 2019). The reliance that can be placed on robust external audit work has therefore inevitably deteriorated as has the external auditors practice (Walker 2019).

Q9. Should the external audit engagement be extended? If so, which additional areas/matters are most important for external auditors to look at? What would be the cost implications of extending the engagement to the areas/matters you consider to be most important be?

External (and internal) audit should be applied to all public expenditure (capital, revenue and grant aid) that flows through local authorities or their collaborative partners. It should be applied proportionately but comprehensively to all arms-length delivery companies, agencies, partnerships, collaborative and outsourced services, joint ventures and special delivery vehicles.

The matters to be looked at are outlined in response to question 6 above.

In addition, Michael Bichard (2012) has identified the need for audit to encourage integration and preventative services and to critically evaluate public policy – or at least auditing the process of policy making while not falling foul of undermining the democratic right of politicians to make political choices.

The overall 'cost envelope' of arrangements for public assurance can be managed to minimise the cost implications of these changes.

Chapter 3: Audit and Wider Assurance

Q10. Should the scope of the vfm opinion be expanded to explicitly require assessment of the systems in place to support the preparation of some or all of the reports that statute requires to be presented to full Council? If you do, which reports should be within scope of the external audit vfm engagement? If not, should these be assessed through another form of external engagement? If you believe that the vfm opinion should be extended to cover these reports will there be implications for the timing of audit work or auditor reporting?

There should be a more comprehensive and robust performance management regime in place for local authorities that includes robust external audit and with external audit and external audit value for money engagement strategically deployed within the overall assurance landscape. It is noted that statutory interventions relating to financial distress, service failure and/or other inability to meet statutory duties have generally been discovered by assurance arrangements other than the MHCLG Accounting Officer's System Statement for Local Government. Failures in Birmingham, Rotherham, Rochdale, Nottinghamshire, Northamptonshire, and Essex FRS (among many others) have generally been unearthed by service inspectorates and other assurance agencies. Government has generally continued to focus on incidents, events and specific failures rather than exposing and dealing with underlying causes. Recent intervention reports, including those referred to above, indicate that serious issues in service are coming to light later than in previous era's and hence are more difficult and costly to address.

Extending external audit vfm opinion does have a role, and auditors should acknowledge issues of concern in their reports, but a more fundamental approach to improving assurance is required.

Q11. Should external auditors be required to engage with Inspectorates looking at aspects of a local authority's service delivery? If you believe that this engagement should happen, how frequent should such engagement be and what would be the end purpose of doing so?

External Auditors should be required to engage within the inspectorates looking at aspects of a local authority's service delivery.

This was routinely done in the past where external auditors (and inspectors from the Audit Commission, and other inspectorates) were effectively part of improvement and intervention arrangements were these were deemed appropriate.

Such engagement should obviously be proportionate to the performance of the local authorities and the importance of the issue. The end purpose would be financial and non-financial improvement in performance and more economic, efficient and effective delivery of public services, assurance to the public and cost to the public purse.

Additional Comment on Chapter 3.

Chapter 3, paragraph 7 refers to the transparency code and the (arbitrary) £500 expenditure limit. This has generated large increases in freedom of information (Fol) requests mostly from the media and from vested political interests. An increasingly large proportion of Fol requests are simply vexatious and/or publicity seeking and add no value to either improving services or public assurance. The arrangements have been counter-productive and in terms of the original intentions it has resulted in a 'perverse' outcome. Despite anticipated political opposition (probably from all parties) it should be removed.

Chapter 4: The Governance Framework for the Audit System

Q12. Does the current procurement process for local authority audit drive the right balance between cost reduction, quality of work, volume of external audit hours and mix of staff undertaking audit engagements?

This is an area where the author has only indirect experience since the current system was established after 2010 and I have undertaken no primary research of the new arrangements.

Anecdotal evidence from in-service audit, accounting and management students, and from new (audit) teaching staff joining the business school consistently suggests cost reduction, promotion of 'non-audit' company services and reductions in the skill mix of staff undertaking audit engagements have been the predominant drivers rather than improving the quality of work supporting improvement and good practice. This would support rather than conflict with the concerns of Sir John the Kingman's Review. Emerging research from Helen Walker (2019) at Northumbria University corroborates this view.

Q13. How should regulators ensure that audit firms and responsible individuals have the skills, experience and knowledge to deliver high quality financial and vfm audits, whilst ensuring the barriers to entry do not get too high?

The new organisation recommended by the Kingman Review should work with the professional auditing bodies to set the relevant standards, inspect the quality of relevant audit work and oversee the relevant professional bodies. This would include ensuring audit firms and responsible individuals have the skills, experience and knowledge to deliver high quality financial and vfm audits, whilst ensuring the barriers to entry do not get too high. It should also take on responsibility for appointing auditors for local bodies and agreeing fees.

Q14. What metrics should regulators use when assessing whether financial and vfm audits are delivered to an appropriate level of quality?

Whilst not defining the specifics of the metric - these should be objectively based, transparent and agreed following an appropriate public consultation exercise that meets the Gunning/Sedley principles.

Q15. Do you agree with the Independent Review of the Financial Reporting Council's findings and recommendations; and why do you agree/not agree? If you agree with the recommendations do you think the 'single regulatory body' should be the "successor body to the FRC" or a sector specific entity? If you do not agree with the recommendations are there any other changes you would make to the regulatory framework for local authority audit?

I agree that arrangements for local audit need to be reconsidered, because I acknowledge that weak and weakening arrangements, if allowed to persist, run a very clear risk of allowing weak and limited audit disciplines to prevail in local government. This is of particular concern given the vital role played by district auditors in detecting and seeking out corruption. This is also important at a time when local authorities are under financial pressure, and some local authorities are engaging in risky speculative ventures.

The author was asked to comment on some of these ventures in a recent House of Commons (MHCLG) select committee hearing relating to local government finance and the spending review 2019 (Murphy 2019b). The author has been an adviser to the Centre for Public Scrutiny for a number of years and concurs with the Kingman review that "high-quality and robust scrutiny of local authorities' finances and financial management in the public interest is a critical part of local democracy". The Centre for Public Scrutiny provides an annual assessment of the scrutiny capacity of local authorities. This demonstrates significant and continuous reductions in the level of resources devoted to scrutiny over the last eight years (Centre for Public Scrutiny 2019).

In general, I agree with the Independent Review of the Financial Reporting Council's findings and recommendations. I consider the 'single regulatory body' could be part of the "successor body to the FRC" but would be better as a sector specific body enabling it to develop a deeper understanding and expertise in local audit.

Chapter 5: Audit Product and Quality

Q16. Do external audit firms have enough understanding of the local authority regulatory framework to focus audit work on the right areas? How do they/should they demonstrate this? Who should regulate this work?

Apologies I do not have sufficient knowledgeable or recent experience to comment in detail about these issues but these appear to be matters for the new organisation recommended by the Kingman Review.

Q17. Do auditing standards have a positive impact on the quality of local authority financial audits?

I agree with the NAO and the Public Accounts Select Committee reports on Local government governance and accountability (NAO 2019, House of Commons 2019) and their concerns about audit coverage and quality. The current arrangements are too restrictive in terms of reporting options and have perceived or potential disincentives and inefficiencies built into the arrangements as the sector specific example of auditing to complete the auditing file suggests.

Whether they currently have a positive or negative impact – it is clear from the various views that they could (and should) be improved and need to be designed more appropriately for the local authority auditing environment.

Q18. Do audit firms allocate sufficient resources to deliver high quality and timely audits? How is consistency and quality maintained in external audit work? To what extent is there consistency in audit teams year on year? What more can be done to ensure consistency between firms?

Apologies I do not have sufficient knowledgeable or recent experience to comment usefully about these issues.

Q19. To what extent are senior audit staff, particularly the responsible individual signing the audit certificate, visibly involved in audit work? Who do senior audit staff meet with?

Apologies I do not have sufficient knowledgeable or recent experience to comment usefully about these issues.

Q20. Should external auditors consider financial resilience as a key factor when designing their vfm work programme? If so, what factors do they/should they consider as indicative of a lack of financial resilience?

As is clear from answers above that I do take the view that external auditors should consider financial resilience, both for the audit and as part of the wider performance management and public assurance arrangements of local authorities. It is clear that this is a new area that needs development. This evidence has referred above to a recent early comparative study of the issue in 11 countries including the UK (Steccolini *et al.* 2017).

The concept of financial resilience is particularly useful in understanding how local authorities respond to adverse conditions affecting their financial position (Barbera *et al.* 2017). One of these strategic capacities, 'perceived financial vulnerability' is the degree to which organisations are exposed to specific shocks or crisis (Saliterer *et al.* 2017).

Saliterer *et al.* (2017) define financial resilience as the ability of organisations to anticipate, absorb, and respond to financial shock arising from a dynamic combination of four interrelated phenomena, which include, (1) financial vulnerability, (2) shocks, (3) absorptive and anticipatory capacity, and (4) coping capacities.

In terms of the factors they might consider as indicative of financial stress or a lack of financial resilience it would be wise to look at lessons from recent and previous government intervention cases, where resources were a key issue and some wider lessons from past crises such as the Icelandic bank crises in 2008.

In the recent Northamptonshire County Council case, it was clear the level and deterioration of reserves allied to long-term weakness in elected member and officer capacity and capability in financial management was a key factor.

In other interventions (particularly small district councils) large outsourcing or major capital contracts (relative to their overall budgets) were an indicator of potential weakness – as were authorities failing to manage in-house delivery implementing rapid outsourcing as a panacea for their problems.

Q21. Does the Code of Audit Practice provide enough guidance on how much work needs to be done to support the vfm opinion? If not, what should it cover?

Apologies I do not have sufficient knowledgeable or sufficient recent detailed experience to comment usefully about these issues.

Q22. Do auditing standards provide appropriate guidance on quality standards for vfm audits? If not, is guidance needed and should it be included in the Code of Audit Practice or elsewhere?

Apologies I do not have sufficient knowledgeable or sufficient recent detailed experience to comment usefully about these issues.

Q23. What is the current relationship between external and internal audit? How should that relationship be developed to add most value to local authorities and local residents?

The relationship between the two functions have become more remote and detached in recent years, both structurally and as a professional relationship.

The respective roles should be clearly defined and differentiated but they should be designed to be mutually supportive of their common objective of improving public and organisational assurance. Internal and external auditors should be mutually respectful of each others roles and develop a robust professional and working relationship.

Q24. What should happen when a regulator finds that a local authority audit has not met quality standards? Where should the balance between ensuring effective enforcement action against auditors and maintaining participants in the audit market lie?

I suspect this will be a matter for the new organisation recommended by the Kingman Review. Any individual case will revolve around how poor the audit is but without doubt, ensuring effective enforcement action against auditors is the primary consideration above maintaining providers of audit.

Chapter 6: Auditor Reporting

Q25. Do you think that the format of the vfm audit opinion provides useful information? If not what would you like it to cover?

The vfm opinion does contain useful information but it could be improved by including an auditors' assessment about whether arrangements are likely to remain in place going forward and an opinion as to whether value for money outcomes have been achieved.

In the past the forward look (sometimes referred to as prospective accountability) and the achievement of outcomes was assessed and provided as part of the Audit Commission external assessment and audit regime. My colleagues and I have consistently argued that public service accountability, transparency and assurance requires an appropriate balance between prospective and retrospective perspectives as well as a more dialogic approach to accountability (Murphy *et al.* 2019).

There should also be a greater range of audit opinion options for auditors to deploy and preferably a short series of opinions together an overall opinion to give auditors the flexibility they need in the ever more complex auditing environment of local authorities.

Q26. Do you think the vfm opinion should be qualified solely because a local authority has received an inadequate Ofsted opinion or a similar opinion from another inspectorate?

Not necessarily but there will be occasions where it is justified.

Similarly, some inspectorates/inspections are much smaller in scope and importance than Ofsted inspections. Tackling this with a series of opinions and an overall opinion might be a practical way forward worthy of further investigation.

Q27. Do you think that the vfm opinion is presented at the right point in a local authority's annual financial management and budgeting cycle? If not when do you think it would be most useful?

The most useful time would be before the annual budget making cycle starts. This is realistically around early September.

Q28. Where auditors have identified significant issues, audit certificates and reports have often been delayed? Why do you think this is and can changes be made to the framework to encourage earlier reporting of significant issues?

Apologies I do not have sufficient knowledgeable or sufficient recent detailed experience to comment usefully about these issues.

Q29. In your view, what sorts of issues should Public Interest Reports be used to highlight?

The last time a significant number of Public Interest Reports were published was at the time of Corporate Governance Reports immediately before or around the time of the first two cohorts of Comprehensive Performance Assessments (the first 'Single Tier and County Council' cohort and first District Council cohort. Prior to this, it was Labour councils in the 1980s (the 1984/85 audit prompted 54 PIRs and 1985/86 resulted in 89) and Westminster Council (under Dame Shirley Porter) and later Hackney and Lambeth London Boroughs. In all these cases, they indicated misuse of power and public funds by individuals – both officers and members (see Campbell-Smith 2008).

Although they were not formally part of the CPA arrangements, PIRs appeared to have become an assumed part of the regime and hence to have been superseded by the broad intervention powers that were introduced as part of CPA. Two of the district council intervention cases that I was 'Lead Official for (NE Derbyshire DC and Erewash BC) could not

have been resolved as effectively without the information in the PIR that was made available at the time of the Corporate Governance Inspection

Q30. Statistics demonstrate that very few Public Interest Reports and Statutory Recommendations have been issued. Why do you think this is? Does it indicate an issue with the framework or common behaviours? If you think this is an issue, what can be done to incentivise more frequent and timely reporting of significant issues?

Although PIRs were not formally part of the CPA arrangements, they seem to have been assumed to be part of the regime and to have been superseded by the broad intervention powers that were introduced as part of CPA. There were more limited service intervention powers prior to CPA but these were only available to a few local government services such as education and the benefits service. The intervention powers are still the basis for most central government interventions and under the labour administrations they were extended to all Best Value Authorities including NHS Primary Care Trusts and Fire and Rescue Services.

PIRs and Statutory recommendations were very useful parts of the public assurance and financial probity investigation portfolio. I suspect their active use has declined more because of lack of awareness among the public and the auditors (particularly since District Audit was abolished) rather than improved behaviours and/or elimination of the type of issues they dealt with!

Q31. Does a publication summarising the results of local authority audits add value? If so who should publish it and what information would they need to have access to perform this function effectively?

Since 1983 and the establishment of the Audit Commission and the publication of statistics for all local authorities, police and fire services; performance management and monitoring and public audit (to be effective), has relied on robust comparative information and data being available, accessible and in the public domain. It also needs to be brought together in a single repository with high quality interrogatory tools and techniques freely available to all enquirers, although this repository needs to be backed up and replicated.

The loss of the vast majority of the Audit Commission database (individual reports on individual inspections – as opposed to AC national reports) when the commission was closed and the web-based information was transferred to the National Archives shows how vulnerable these databases in a single location are.

Such repositories need to have an independent host organisation that commands the sector wide confidence of the community of interest. They also need to be backed up securely in another public organisation.

Chapter 7: The Framework for Responding to Audit Findings

Q32. To whom should external auditors present audit reports and findings; is it the audit committee, to full council or equivalent or another committee? If findings are not presented to full council or equivalent what information (if any) should full council or equivalent receive?

There are arguments to support and arguments to challenge the particular arrangements in the PCC/Chief Constable model; the Mayoral Combined Authority model or the model in NHS Health Trust. What is common to all of these models is a degree of independent scrutiny and regularised, timely and assured reporting that is absent from the local authority arrangements. There is unwarranted variation even between different local authorities .

There must be a (compulsory) significant independent element within new arrangements; a proscribed timetable and ultimately reporting to Full Council through a dedicated and independently chaired Audit Committee.

Q33. In your authority, what is the membership of the audit committee (number of members, how many are independent etc) and which officers typically attend?

Not applicable as author no longer working in a council.

Q34. How should local authorities track implementation of recommendations made by internal audit, external audit and relevant statutory inspectorates? What should the external auditors do if recommendations are not being implemented?

This is a matter for their internal scrutiny arrangements, which is particularly unfortunate given the continuing erosion of power and resources available or applied to the scrutiny function within local authorities over the last eight years. This is compounded, by the significant inadequacies and deterioration in efficacy of the performance management and monitoring regime for local authorities and external their scrutiny arrangements.

The internal performance management committees, boards and project teams that proliferated in local authorities only 10 years ago, have almost totally disappeared and those that remain have significantly reduced influence.

There is obviously an issue about proportionality and a clear difference between statutory and non-statutory auditor recommendations; but in the first instance, auditors should expedite reporting them to the authority to make the authority aware and able to take immediater corrective action or provide an explanation.

Q35. Should there be a role for an external body in tracking action taken in response to modified audit opinions and/or statutory recommendations and public interest reports? If so should that responsibility sit with MHCLG, the sector specific oversight body

recommended by the Independent Review of the Financial Reporting Council or another body?

In the absence of Local Strategic Partnerships and the Government Offices for the Regions either of which might have been appropriate bodies (duly enfranchised), or Regional LGAs or Regional Assemblies (less appropriate in my view); the Centre for Public Scrutiny proposals for Local Public Accounts Committee should be revisited together with the sector specific oversight body recommended by the Independent Review of the Financial Reporting Council.

If the responsibility was to sit with MHCLG it should be on the basis of an arms-length Non-Departmental Public Body, but I would not favour this option as it would inevitably lead to micro management from the central state and is likely to be strongly resisted by local authorities and any collaborative partners who's actions are implicated.

Chapter 8: The Financial Reporting Framework

Q36. Do local authority accounts allow the user to understand an authority's financial performance and its financial resilience? If not, how could they be revised to be more understandable? What information could be presented to enable users of the accounts to understand whether the financial position of a specific LA is getting better or worse?

It should be clear from earlier answers that I do not consider current local authority accounts are either appropriately structured or are sufficiently transparent to allow the users to understand an authority's financial performance nor its financial resilience. I do not think this is the case for users who have professional advice available (such as the government and elected members of the authority) let alone a "reasonably well-informed" individual member of the public.

Prospective and retrospective accountability needs to be embraced and designed-into the new arrangements. The assessment of financial resilience should be developed and incorporated into the regime. The latter will require co-creation, co-production and testing of new mechanisms and tools and although it will take time, it is essential to meet current (and future) public expectations.

Q37. The UK Government is committed to maintaining IFRS based accounting for the UK public sector. Given this, how would you recommend resolving the mismatch between the accruals and funding basis to improve the understandability of local authority accounts?

Apologies I do not have sufficient technical knowledge or sufficient recent detailed experience to comment usefully about these issues.

Q38. Do you think that summary financial information should be reported in the annual report section of the accounts? If so, on what basis and should this information be covered by the financial audit opinion?

Yes, and it should be subject to the test of being a fair reflection of the accounts ('not inconsistent' is a lower test than 'fair reflection').

Any such prominent and important information (if included) should be subject to audit.

Q39. If you think that summary financial information should be reported in the annual report section of the accounts, should it be presented with performance information? If so, what performance information would be of most interest to stakeholders?

Vfm, financial resilience, organisational sustainability and auditors' opinions on financial and non-financial performance are the aspects of most interest to stakeholders. Non-financial performance should be publicly reported but not in the financial accounts. Subject to the development of appropriate technical tools and measures – the others should be.

Chapter 9: Other Issues

Q40. For larger authorities, does the inspection and objection regime allow local residents to hold their council to account in an effective manner? If not, how should the regime be modified?

Apologies I do not have sufficient recent detailed experience to comment usefully about these issues.

Q41. Is more guidance needed to help auditors assess the impact of significant changes to common business models? If so is this guidance needed to support the financial audit, the vfm audit or both?

Given the fundamental shift in the numbers, scope and complexity of these new models and the significant risks they represent to value for money and the financial resilience of local authorities, there is a clear and compelling need for new up-to-date guidance that is comprehensive in terms of all public expenditure by local authorities.

For the avoidance of any doubt the above view (about the need to comprehensively audit all public expenditure) applies to all expenditure – whether direct expenditure, public-public, public-private and commercial expenditure (and in particular commercial expenditure).

Q42. Is the financial reporting and audit framework for larger category 2 authorities appropriate? If not, what additional information should be subject to audit/assurance and what would be the cost implications of this?

There have always been a small number of large Parish and Town Councils with significant assets and revenues e.g. Dronfield TC in Derbyshire and Burbage PC and Melton TC in Leicestershire, and these are going to get larger (see Sandford 2019, for current issues).

The National Association Local Councils (NALC 2019) which is the representative body for Parish and Town councils has suggested that there are some 270 more parish and town councils in England than there were just over 15 years ago. Both the Coalition Government and previous Labour administrations encouraged both their establishment and the devolution of powers and assets to this level of administration. The continuing reorganisation of local authorities into unitary authorities has also been a significant factor in their growth.

Whatever the reasons for this growth they should not be exempt from financial accountability to the public. Simply revising the current £200k and £6.5m limits is merely postponing the issue (although these limits do also need revisiting). However, the current non-simplified accruals Annual Governance and Accounts return arrangements and the no-income exemption statement appear to be sufficient for the smaller Category 2 councils.

A full audit would appear disproportionate for larger Category 2 authorities but they should be subject to a level of review greater than a limited assurance engagement. The current review has the opportunity to recommend the establishment of an appropriate working group (with key stakeholders such as CIPFA, and NALC included) to devise and recommend a new intermediate regime for larger category 2 authorities. If sufficient support is forthcoming from the current 'call for views' I would recommend it does so.

Q43. For smaller authorities, does the inspection and objection regime allow local residents to hold their council to account in an effective manner and is the cost of processing and responding to objections proportionate? If not, how should the regime be modified?

Although I have not faced this issue in practice for some years, in my previous experience, there were multiple objections on Parish/Town Council accounts from the same individuals and groups (often members of the same Parish/Town Council).

Automatic audits with fees is clearly disproportionate and wastes public money particularly as the opportunity is there to formally involve both the local Monitoring Officer, the Section 151 Officer and/or the internal audit officers of the principle local authority as part of an initial review before invoking a full audit.

This issue should be part of the remit of the working group referred to in the response to Question 42.

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Prior to joining the business school, he was a Senior Civil Servant in four Whitehall departments from 2000 to 2009. The Department of the Environment Transport and the Regions, where he was a member of the Local Government Modernisation Team). The Department of Environment Transport and Regions, where he was a Director of Local Government Practice. The Office of the Deputy Prime Minister where he oversaw the development of performance management regimes for locally delivered services and was a 'Lead Official' for several cases of Local Authority Intervention; and the Department of Communities and Local Government where in addition to previous responsibilities was a Director of the Government Office for the East Midlands.

Prior to becoming a senior Civil Servant, he spent 23 years in Local Government most recently as Chief Executive of Melton Borough Council, where he was also the Monitoring Officer, and at Hinckley and Bosworth District Council where he was Chief Planning, Recreation, Economic Development and Estates Officer.