

Written evidence submitted by Professor Ileana Steccolini (University of Essex), Dr Andre Lino (University of Essex) and Bernard Dom (Nottingham Trent University) [FRA 009]

About the team: The authors have conducted extensive research into the **financial resilience of local authorities** for more than a decade, both in the UK (also in partnership with CIPFA and CIMA), and internationally (in partnership with colleagues from a plurality of countries). **Professor Ileana Steccolini** is the President of the International Research Society for Public Management, the Editor-in-Chief of Financial Accountability & Management, the Chair and founder of the Public Service Accounting and Accountability Group, and a member of the Italian standard-setting committee for public sector accounting, with extensive experience and research dealing with **financial resilience, accountability and the uses and users** of accounting and reports, as well as public service **co-production and digitalisation**. **Dr André Lino** is board member and co-founder of the Public Sector Accounting and Governance research group and conducts research into **financial resilience, co-assessment** of public services and **digitalisation of audit practices** – including communication to stakeholders - and their effects on local governments. **Bernard Dom** is specialised in the **financial resilience** of local authorities in the UK.

Summary: The context of local audit and reporting faces important challenges which require strengthening accounting, reporting and auditing to better support decision making, accountability, community participation, and manage future risks and shocks. Based on our research and evidence reviewed, we identify three main priority areas with high potential for improvement and intervention. These are summarised in the three points below, further illustrated in Table 1, and explained in more detail in the following subsections.

The improvement of local auditing and reporting will require consideration of:

- (i) **what** needs to be accounted for, reported, audited, used as a basis for decisions, with particular reference to the need to reflect **wider performance dimensions**, than traditional ones, with a particular attention to a more comprehensive coverage of **financial and organisational resilience**, with a renewed focus on the medium and long term, and the connections between financial and non-financial performance, and community resilience;
- (ii) **who** should be involved in the processes of performance assessment (and reporting), with a particular attention to **local communities and users or services**;
- (iii) **how** such involvement, reporting and auditing should take place, with particular attention to the potential of **digitalisation** to support better **production, communication, and use of information**, as well as to reap the benefits of its **participatory and inclusive** potential.

Table 1 below illustrates how it is possible to work on those three areas, contrasting the traditional model of reporting, accounting and auditing (column 1), with the proposed one (column 2), and providing the relevant references and evidence (column 3).

Table 1. Local audit and reporting: traditional vs proposed wide-focused model

	Traditional Model	Proposed model, widening the focus to:	Evidence in
Organisational Resilience	Focus on control/monitoring/compliance	Learning and building of capacities	Barbera et al., 2017, 2020, 2021
	Focus on external stakeholders	Focus on internal organization, and capacities and competencies	
	Focus on financial vulnerabilities	Focus on overall vulnerabilities	
	Short term focus	Long- and medium-term focus	Steccolini et al., 2018
	Money as the most important resource	Capacities as resources supporting the provision of services	
Financial and Organisational Resilience	Focus on financial data	Non financial data/ service performance/ capacities	Bracci et al., 2022
	Efficiency and effectiveness, risks, financial vulnerabilities	Overall resilience capacities (including organizational capacities, anticipatory and coping) Focus on resilience, sustainability, and social equity	Van Helden Steccolini (WIP)
Community participation	Focus on experts and specialists	Focus on non-experts/ citizens to ensure better inclusivity, relevance of decisions, accountability	Barbera, Sicilia, and Steccolini 2020
	Funding from govt	Community participation	
	Focus on top-down relationship with central govt (accountability to centre)	Inclusion and participation of community to assessing performance Focus on accessibility and understandability – importance of increased involvement/participation/inclusion of communities in reporting and auditing	
Digitalisation	Traditional data	Digitalization changing data production and use	Azevedo et al., 2021
	Centralized production of data	Decentralized production of data, co-production of data Need for coordination	Agostino et al., 2022
	Ex post, lagged production of data	Real time production of data	
	Surveillance	Emergence of new producers and intermediaries of data Sousveillance	Lino et al., 2022, 2023

Source: authors' elaboration.

WHAT to account for, report and audit. Financial resilience as part of a broader scope in audits.

(This section addresses in particular issues concerning “What information” should be contained in the accounts; and issues concerning the “Understandability and accessibility of accounts”;)

The Redmond Review highlights that external auditors should consider financial resilience within their financial audits or value for money framework for Local Authorities (Redmond, 2020, p. 37, 46-55). However, financial resilience has often been interpreted in practice in a narrow, short term, financially-focused way, closer to traditional concepts of efficiency than of resilience.

Yet, our extensive research into both UK and international local Authorities (Barbera et al., 2017, 2019, 2020) has highlighted that financial resilience is a much wider concept, requiring a serious rethink of the ways in which performance is assessed

and measured, and thus also audited. More specifically, resilience is conceptually and practically different from, and at times at odds with, efficiency, and refers to the ability not only to **bounce back**, but also **bounce forward** in the long term, and being able not only to buffer and adapt, but also to *transform* services, structures, systems and capacities to reflect continuous changes in the environment, and be **robust and prepared for future crises**, both *sudden* (such as the recent *pandemic*) or *slow burning* (such as *climate change*). Our research shows that central to financial resilience is the development of **anticipatory and coping capacities** by Local Authorities that, in combination with environmental conditions and perceived vulnerabilities, will affect their ability to anticipate, absorb, and react to shocks and changes affecting their finances. That being said, auditing for financial resilience should not focus solely on financial short term prudence benchmarks (see Redmond, 2020), but also on longer term indicators, including also non-financial measures, and connecting them with organisational aspects and internal capacities that enable long term maintenance and provision of services and support to local communities and businesses. Thus, the reporting and auditing system must focus on overall vulnerabilities and comprehensive forms of data rather than solely short term, fiscal, vulnerabilities and data. Such an ample view on financial resilience must include the evaluation of Local Authorities **anticipatory capacities** such as *exchange of information* with other relevant players (e.g., upper levels of government or external service providers), *monitoring* changing needs and regulations, *sharing information* quickly and freely while also creating a culture of acceptance of *critical thinking* within the organisation, but also **coping capacities** such as *rapidity* of actions, *internal collaboration* such as dialogue across departments and *external collaboration* with external players to develop timely solutions to crisis (for more detailed illustrations, see Barbera et al, 2017, 2019, 2020). These considerations also imply to rediscover the wide potential that audit and accounting can have to bring about organizational self-reflection, to activate and support **organizational learning** and transformation processes, aimed at strengthening local capacity to provide services and support local communities. For instance, when thinking about **users and uses of local authority accounts and audit**, local audit purpose should embrace a supportive approach in identifying gaps, and fostering capabilities to maintain or improve service to the community, and anticipate and cope with shocks in the long term. Local audit focusing on the broader financial resilience perspective may help to identify issues creating **early warning mechanisms and raising potential red flags** on local authorities' operation to ensure timely intervention. The long term, wider view of resilience, and the centrality of building organizational capacities, we advocate would also encourage Local Authorities to take **direct responsibility** for their future, leveraging autonomy over dependence. Along these lines, going forward, for financial and organisational resilience to be properly monitored, audited, reported and governed, an enhanced focus on external stakeholders as users of audit reports is also needed, to link such considerations to community resilience and strengthen external accountability, as discussed in the next sub-section. An example of how organizational capacities for resilience can be assessed is provided by the authors' financial resilience assessment toolkit (Steccolini et al, 2018; Barbera et al., 2022; <https://gfrtoolkit.wixsite.com/financial-resilience/news/using-the-toolkit-to-improve-local-governments'-financial-resilience>).

WHO. Community participation in local authority accounts and audit.

(This section addresses questions concerning “Uses and Users of local authorities account and audit”; and on the “Understandability and accessibility of accounts”)

Who uses Local Authorities’ reports, and how, is a long-debated issue. Various potential groups of *external* (e.g., citizens, auditors, other local authorities) and *internal users* (e.g., councillors, public managers, and trade unions) have been identified, though actual users and uses are more uncertain, with reports often seen as playing a symbolic accountability role (e.g., Steccolini, 2004; Giacomini et al., 2016), and being relevant especially for internal users, and experts (e.g. auditors). Interestingly, though, evidence suggests politicians and public managers consider non-financial performance information more important than financial ones (Liguori, Sicilia & Steccolini, 2012), further supporting the claim that to reflect users’ needs a **widening of the dimensions of performance** reported for and audited may be needed. More generally, extant research has shown that in a traditional reporting setting, citizens, and local communities, tend to be passive (and almost non-existing) users of financial reports, which may also **reduce the potential relevance of what is being reported, its inclusivity and its potential as accountability medium**.

Yet a recently emerging stream of evidence and literature has highlighted that for public financial reports to be more than a ceremonial exercise, **users’ participation** in the assessment of performance may be an important condition of success. This is in line with more general evidence on the benefits of stakeholders’ engagement in public services. Interestingly, while citizens’ participation in budgeting (and its conditions for success) have been the subject of more experimentation and attention, (for example, see Barbera, Sicilia and Steccolini, 2016), much less attention has been devoted to exploit **the potential of inclusivity, accountability, and improvement of co-assessment, i.e., the process through which citizens and communities participate in the assessment of public performance**. Such participation has the potential to happen at *different stages of the process (from the definition of the relevant dimensions of performance, to the collection of data, to their reporting, evaluation, and auditing)*. Depending on organisational and regulatory arrangements (Lino et al., 2019), it is also expected to strengthen accountability to communities, their sense of inclusion, as well as the **relevance, understandability and reliability** of what is being measured and reported (for more details, see Barbera, Sicilia and Steccolini, 2020), ultimately having a very **important potential to shape and improve reporting and auditing, and to identify and address actual users’ needs**.

HOW. The role of digitalisation.

(This section addresses questions concerning in particular “Making the local authority accounts meet the needs of users better”)

Digitalisation is significantly re-shaping public services, citizens-public sector interactions, and accounting and auditing activities. Our review shows that digitalisation is central in re-shaping *how, when and which type of data and information* are collected, produced, analysed, audited and reported (for more details, see Agostino, Saliterer and Steccolini, 2022). This presents both opportunities and challenges, which need to be taken into consideration when rethinking about reporting and auditing in the public sector. In general, digital technology may support both **(i) the widening of the scope of reporting and audit; and (ii) better interactions with communities, and participatory approaches**.

As digitalisation is accompanied by a **wider capacity to collect a larger, and wider, amount of data real-time, in decentralized ways, and to integrate and analyse**

them, this has fundamental impacts on how accountants and auditors work, as they can reap such benefits to their full extent, while at the same time keeping control over the reliability and comparability of data (Agostino et al., 2022).

In the current context of reporting requirements, summed up to other activities such as accessing specific competitive grants (Dom & Lino, 2022), local authority finance teams feel overwhelmed. In a typical scenario where there are accounts being given to a range of stakeholders – external auditors being only one of them - multiple accountability requirements emerge. The new local audit system leader may work towards making sure the information provided to audit does not overlap with other information that is already available to other stakeholders – minimising accountability overload and the potential negative impacts to accountants (Lino et al., 2022). This can be done by integrating audit systems (digitalisation) to the financial management information systems in place in local authorities (Lino et al., 2023). Since local finance teams are already busy, some simplification in other reports must be put in place to make room for financial resilience requirements through auditing. As asking more data on the internal capabilities might be burdensome, simplifications to the reporting requirements in place may be an option alongside to audit teams co-producing financial resilience data with local governments, i.e., applying a toolkit developed by the authors (see Steccolini et al., 2018) as part of their audit tasks, making the use of the toolkit part of the auditors' routine.

As digitalisation also translates into new forms of horizontal, and co-produced accountability based on peer relationships that hold each other accountable based on real-time, self-made, and collaborative, approaches to data production, collection, analysis, and interpretation, it may prove central in **making local authority accounts meet the needs of users better and foster forms of participation and inclusion**. In this context, data is being used beyond information provision and decision-making. Local accounts can be used to generate engagement and empowerment but also surveillance through with easy-to-use portals or applications and integrated data visualization tools (Agostino et al., 2022).

In conclusion, the evidence provided above highlights that auditing and reporting systems for Local Authorities are at an important juncture, and that there is a concrete opportunity to better identify and respond to users' needs, to support public services resilience and community inclusion, and strengthen audit by (i) working on a more comprehensive view of Local Authorities' resilience; and leveraging the potential of (ii) community participation and (iii) digitalisation to provide stronger accountability and enhanced decision making in both the short and the long term.

References

Agostino, D., Saliterer, I., & Steccolini, I. (2022). Digitalization, accounting and accountability: A literature review and reflections on future research in public services. *Financial Accountability & Management*, 38(2), 152-176.

Azevedo, R. R., Lino, A. F., Aquino, A. C. B., & Machado-Martins, T. C. P. (2020). Financial management information systems and accounting policies retention in Brazil. *International Journal of Public Sector Management*. 33(2/3), 207-227.

Barbera, C., Duboys, C., Kofi Dom, B., Korac, S., Saliterer, I., Steccolini, I., (2022), "Governmental financial resilience: a European perspective" (with), *Research Handbook on City and Municipal Finance* (eds. Johnson, C. L., Moldogaziev, T. T., Ross, J. M), Elgar Publishing.

Barbera, C., Sicilia, M., Steccolini, I., (2016), "What Mr Rossi wants in participatory budgeting: two Rs (Responsiveness and Representation) and two Is (Iteration and Inclusiveness)" (with.), *International Journal of Public Administration*, Vol. 39, No 13, pp. 1088-1100

Barbera, C., Jones, M., Korac, S., Saliterer, I., & Steccolini, I. (2021). Local government strategies in the face of shocks and crises: the role of anticipatory capacities and financial vulnerability. *International Review of Administrative Sciences*, 87(1), 154-170.

Barbera, C., Sicilia, M., & Steccolini, I. (2020). Citizen-government interaction in public services' performance assessment: A conceptual framework and future research avenues. *Working paper*, presented at the EIASM Public Sector Conference.

Barbera, C., Guarini, E., & Steccolini, I. (2020). How do governments cope with austerity? The roles of accounting in shaping governmental financial resilience. *Accounting, Auditing & Accountability Journal*.

Barbera, C., Jones, M., Korac, S., Saliterer, I., & Steccolini, I. (2017). Governmental financial resilience under austerity in Austria, England and Italy: how do local governments cope with financial shocks?. *Public Administration*, 95(3), 670-697.

Dom, B. K., & Lino, A. (2022). *East of England local authorities' financial resilience in order to be partners for sustainable, inclusive growth*. EoE APPG Meeting, November 2022.

Giacomini, D., Sicilia, M., Steccolini, I., (2016), "Contextualizing politicians' uses of accounting information: reassurance and ammunition", *Public Money & Management*, Vol. 36, No. 7, pp. 483-490.

Liguori, M., Sicilia, M., & Steccolini, I. (2012). Some like it non-financial... Politicians' and managers' views on the importance of performance information. *Public Management Review*, 14(7), 903-922.

Lino, A. F., Busanelli de Aquino, A. C., de Azevedo, R. R., & Brumatti, L. M. (2019). From rules to collaborative practice: When regulatory mechanisms drive collective co-production. *Public Money & Management*, 39(4), 280-289.

Lino, A. F., Azevedo, R. R. D., & Belote, G. S. (2023). The influence of public sector audit digitalisation on local government budget planning: evidence from Brazil. *Journal of Public Budgeting, Accounting & Financial Management*, 35(2), 198-218.

Lino, A. F., Aquino, A. C. B. D., & Neves, F. R. (2022). Accountants' postures under compulsory digital transformation imposed by government oversight authorities. *Financial Accountability & Management*, 38(2), 202-222.

Steccolini, I. (2004). Is the annual report an accountability medium? An empirical investigation into Italian local governments. *Financial Accountability & Management*, 20(3), 327-350.

Steccolini, I., Barbera, C., Jones, M., Korac, S., & Saliterer, I. (2018). *Local government financial resilience: Germany, Italy and UK compared (with a practical tool-kit for local governments)*. CIMA Research Executive Summary, 14.