

Written evidence submitted by Research for Action [FRA 017]

A. Users and uses of local authority accounts and audit

A.2 What role local authority accounts play in local accountability and democracy?

Local authority accounts have the potential to be a crucial tool for the public, local media and other stakeholders to access information about local government finances. This would enable a scrutiny function, enabling those who are impacted by local authority finances and priorities to hold authorities accountable. The public also brings a range of expertise and experience and can thus provide an additional level of checks and balances crucial for democracy.

However, at the moment this potential for accountability is not fulfilled. We have seen and documented how the mechanisms for understanding accounts – such as the ability to ask questions to the auditor or access related documents when inspecting local authority accounts – do not work. They are systematically shut down by local authorities, auditors and regulatory bodies alike.

A.4 Who currently uses local authority accounts?

What do they use the accounts for?

In Research for Action's work, we have used local authority accounts to investigate financial issues across the country, such as bank loans councils have taken out. We know other researchers as well as campaigners have used accounts in similar ways, to conduct large-scale investigations into commercial property investment or Private Finance Initiative. For this, we and others have used the public rights to inspect accounts and raise objections. However, as detailed in our research (Democracy Denied: Audit and Accountability Failure In Local Government, 2021 <https://researchforaction.uk/democracy-denied-audit-and-accountability-failure-in-local-government>) and below in this submission, we believe that these rights are currently not fit for purpose.

We are also in touch with a number of individuals or small local groups formed of concerned citizens who have used the inspection rights locally to investigate their local councils. These 'citizen audits' often have started from a specific local issue and widened into comprehensive investigations into an authority's competence. Some independent local journalists also use the rights in a similar way to this. We have documented the work of some of these citizen auditors in our 2022 publication "Citizen Auditors: Investigating Local Government's Accountability Gap" <https://researchforaction.uk/citizen-auditors-investigating-local-governments-accountability-gap>

A.5 Who should be using local authority accounts?

This year, Local Government will account for approximately £60bn of public spending and provides many essential services. Hence more of the public and local journalists using local authority accounts would enable better scrutiny and accountability in the sector. At the moment, the use of local authority accounts by any civil society groups is minimal.

We believe more people should be using local authority accounts and have seen that there are significant barriers to members of the public accessing information from them. These include: the length of the documents; lack of explanatory notes; lack of consistency in how accounts are presented across authorities; delays in disclosure of related documents.

A.6 What information do citizens need in order to hold their local authorities to account?

Is this information available in the local authority accounts as they stand?

In order to hold their local authorities to account, citizens need understandable information about how money is spent and how decisions about spending are made. This means that they need to be able to see the decisions and information behind the data presented in financial accounts, which is often complex. To make the accounts meaningful, timely and unobstructed access to related documents is needed. These are any books, deeds, contracts, receipts and invoices.

According to the right to inspect council accounts, the public should have the right to this information. However, the experiences we have detailed in our reports evidence that local authorities do not respond to residents' concerns adequately (Democracy Denied, 2021, Section 3). In our research that analysed 72 requests to inspect council accounts, we saw the following: authorities often failed to publicise the objection rights as required by the legislation; they did not understand the requests, often treating them as Freedom of Information requests; they took over the legal time to provide information; and failed to provide relating documents despite this being part of the inspection right as specified in the legislation. Where responses were provided - in less than 50% of cases - they were often inadequate and partial.

The time window for requesting these documents is also currently restricted, and we believe it would further citizen scrutiny of local authority accounts if supporting documents were available not only during the inspection period. The Freedom of Information Act enables some of this, however responses to FOI requests are also often delayed.

In our work with citizen auditors across the country, we have also heard of council officers' and elected members' antagonism towards members of the public who try to access information. (Citizen Auditors, 2022, p.9)

B. Understandability and accessibility of local authority accounts and audit

B.1 Do the accounts provide a clear picture of the financial sustainability and resilience of a local authority?

Currently, accounts provide only a very limited picture of the financial sustainability and resilience of a local authority.

We have seen that even auditors do not understand some of the more complex financial arrangements local authorities have entered into (Democracy Denied, 2021, p.20-21).

We have also seen cases where the publishing of accounts is delayed so that an up-to-date picture cannot be formed. (<https://www.slough.gov.uk/performance-spending/statement-accounts>)

B.2 How well do users understand the financial position and performance of a local authority from its accounts?

It is barely possible to understand local authorities' financial position and performance from the accounts. The accounts alone present relatively little information that is of use for assessing the financial position of authorities, and we have seen that authorities are reluctant to publish supporting information, even when the public requests it through the inspection rights. (Democracy Denied, 2021) In addition, we have seen significant delays in publishing accounts by authorities, especially those that are in financial difficulty.

B.4 How easy do users find it to locate key information they are looking for in accounts?

It is possible to locate specific information in the accounts, for example on the level of reserves (although not necessarily how these might be used) or information about specific loan instruments or borrowing arrangements. However, this is only useful in limited situations and is not a substitute for the accounts presenting a clear overall picture of a local authority's financial situation and sustainability.

B.5 Electors have a statutory right to inspect and object to pre-audited accounts. How widespread is this, and how does the current format of local accounts affect it?

The current rights to inspect and object to pre-audited accounts is not fit for its purpose.

At the moment there is no national data gathered on the uses of these inspection and objection rights. In a 2018 Report for MHCLG 'Assessing the impact of change to the local audit regime' it was suggested that data should be gathered nationally on the number of

objections raised to local authority accounts, that “a sign of the health of the local audit regime is the ability of local electors to personally inspect the accounts of their council”.

As part of our research project, the findings of which were published in our 2021 report *Democracy Denied*, we analysed 155 separate citizen engagements, including 69 objections submitted in England and a further 14 in Scotland over three financial years. To verify the representativeness of our dataset, an FOI request was made to all 324 English local authorities in September 2019 to ascertain the number of objections lodged since the 2014 legislation came into force. This revealed a total of 119 objections since 2014, meaning that the English objections represent 58% of all objections in the years covered by the report.

As detailed in answer to question A.6 above, local authorities rarely made information available to inspection in a timely and adequate manner. In relation to objections, our work details the overwhelming lack of response and the troubling poor quality of responses that were received, where auditors failed to engage with arguments presented, ignored evidence presented and showed a worrying lack of understanding of local government finance. We show how auditors obstruct residents’ use of the rights by taking years to respond, preventing objectors from sharing documents and questioning the validity of objections, which often simply asked for the auditors to produce a public interest report on a subject.

The need for improved scrutiny has been acknowledged. The Redmond Review into ‘arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England’ was announced in 2019 and reported in 2020. The call for views rightly highlighted with concern the low use of public interest reports (or in fact any other actions available to the auditors), noting: “Particularly at a time when local authorities are under acute financial pressure, and some local authorities are engaging in risky speculative ventures, high-quality and robust scrutiny of local authorities’ finances and financial management in the public interest is a critical part of local democracy. The Review is very concerned that the quality of this scrutiny is being pared back at the worst possible time.”¹ The scope of the review was encouraging and included questions on whether auditors were “...properly responding to questions or objections by local taxpayers?” and “... does the inspection and objection regime allow local residents to hold their council to account in an effective manner?” However, the final report of the review, published in September 2020, failed to address any of these issues and did not seriously engage with citizens experiences of rights to challenge and object.

Although accounts could be improved, it is the conduct of auditors and authorities, allowed by the legislation, that is effectively hindering the ability of the public to scrutinise the spending and decision-making of their local authority. In our work with citizen auditors

¹ Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England September 2019 p.20

(Citizen Auditors, 2022) we have seen that the public want to scrutinise their local authorities and go to great lengths to do so.

C. Making local authority accounts meet the needs of users better

C.2 Do local authority finance teams have sufficient expertise and capacity?

Local government funding has been significantly reduced in the last decade. This has reduced capacity across the sector.

The Redmond Review reported that many local authorities had “significant concerns about the knowledge and expertise of staff working on their audit” and 83% felt the private firms did not have enough understanding of the local authority regulatory framework.

Concerns regarding the significant changes in local government and their impacts on accountability have also been raised by Transparency International, who in 2013 wrote that government reforms including the Localism Act and Local Audit and Accountability Act were creating “an enabling environment for corruption.”

https://www.transparency.org.uk/sites/default/files/pdf/publications/Corruption_in_UK_Local_Government- The Mounting Risks.pdf

The experiences we have detailed in our reports are further evidence that local authorities do not respond to residents’ concerns adequately (Democracy Denied, 2021, Section 3). See our answer to question A.6 above for more detail.

C.4 How could local authority annual report and accounts be more accessible?

Local authority accounts should be timely available for the public, together with related documents. The information presented should be accompanied by explanatory notes where relevant (for example the length of loan arrangements, borrowing costs or reserves) with a trend longer than the usual two-year comparison.

There should be a clear and enforceable complaints and appeal system at a national level where local authorities do not comply with their statutory obligations to public their annual report and accounts.

C.5 What is the role of the new local audit system leader in improving local authority accounts?

Since the abolition of the Audit Commission, no organisation has taken on the remit or responsibility for carrying out independent inquiries or investigations into issues of concern across multiple local authorities. Added to the delays and shortcomings in local audit, this is of significant concern. The new local audit system leader needs to respond to this crisis point, and it needs clear understanding and expertise of the specific circumstances of public

sector bodies. This should include looking at accounting standards and financial reporting for local authorities as well as audit arrangements.

D. Addressing findings in audits and sharing best practice

D.1 To what extent can local authority audits identify issues prior to the most significant difficulties being known?

Local authority audits should be able to identify issues before they become significant.

We agree with Sir Tony Redmond's statement in his call for views (Sept 2019) for the Independent Review into Local Authority Audit arrangements in England, that "Many authorities are delivering these services through increasingly complex business models. This means that those providing audit and wider assurance services need to have access to a range of specialist skills and experience beyond audit and accounting. They also need to have sufficient understanding of the wider regulatory framework."

In our research we found a clear lack of relevant experience and expertise in auditors' responses to residents: auditors did not have an understanding of the regulatory framework guiding local government finance and misinterpreted the nature of the financial instruments that objections focused on.

D.2 To what extent is there a framework for auditors in local government to work together and to share best practice? Should such a framework be formalised?

We believe it would be important to formalise a framework for auditors to share best practice. However, this framework should be public and fully transparent - otherwise it risks exacerbating the problems with the audit industry. There needs to be a mechanism for local authorities and the public to input into this framework so that it serves the entire local government sector.

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