

Written evidence submitted by Professor Laurence Ferryⁱ and Assistant Professor Henry Midgleyⁱⁱ, Centre of Public Accountability, Durham University, UK

1. Introduction

We welcome this Public Accounts Committee (PAC) inquiry and the National Audit Office (NAO) report, that it is based upon. Whilst for obvious reasons associated with COVID-19, financial accounts and annual reports of local authorities have been laid later for 2019-20 and possibly will be laid later for 2020-21 than normal, the publication of this information remains essential for democratic accountability for the approximately £100bn of revenue spending spent by local authorities in 2019-10. Our submission addresses the two issues that the Committee has raised; firstly the importance of timely accounts and secondly the issue of the quality of accounts.

In summary,

- **We agree with the NAO that timely audited financial information is essential to scrutiny of Local Government.**
- **Whilst we understand the pressures that local authorities have been working under, we think that timely publication is even more essential during this unprecedented emergency to enable scrutiny of the whole of Government response.**
- **After the Redmond review and due to the fact that few people use local authority accounts, we think Parliament needs to re-examine the purposes of these documents- identifying what they are for and aligning the presentation of accounting data with these new purposes.**

2. Issues

2.1 Timeliness of accounts

We agree with the NAO that it is essential that audited financial information is published on a timely basis. This is especially true in a pandemic. Accounts are, amongst other things, the basis for decision makers to decide about how funding is allocated and where it goes, for citizens to evaluate the way that local services are run and for experts, of various kinds, to compare the financial and performance impact of different local approaches. The failure to publish audited accounts, even when the financial information in them is not organised optimally, means that some of the data required to make all of those decisions is not available.

We agree with the NAO's report that "local authorities need accurate and reliable financial information to plan and manage their services and finances effectively". Recent academic

research extends this point: central as well as local government needs good quality information to make sure that money is allocated to the local authorities who are most in need of the money (Ferry and Murphy, 2018; Murphy et al., 2019), even more so during a crisis such as COVID-19 (Ahrens and Ferry, 2021a). PAC has rightly stressed the importance of maintaining the financial sustainability of local services over the last ten years: those reports and the NAO studies they were based upon were only possible thanks to the fact that the NAO and PAC had timely financial information from local authorities to base them upon.

The Government and local authorities reasonably might argue that during a pandemic it is hard to produce accounts, given the constraints on resources and staff time. We accept this point. However, we would also argue that the unprecedented nature of the pandemic makes good information flows more, not less, important. The pandemic has different impacts on different local authorities through the country and so the prior financial state of each local authority is not necessarily a good indicator for its post pandemic state. Early academic evidence indicates the harm caused by a lack of data in an unprecedented situation (Ahrens and Ferry, 2020, 2021a, 2021b). Lack of good quality financial information makes the task of decision makers harder, faced with deciding how to allocate resources without a good sense of which authorities might need them the most. It makes the task of those scrutinising unprecedented decisions almost impossible: how, without good quality, audited data, are the public or civil society supposed to scrutinise the impact of decisions taken in central government on local government's finances? (Ahrens and Ferry, 2020; 2021a, 2021b).

2.2 Quality of accounts

Democratic politics relies upon the assertion that the Government is accountable to its citizens and their representatives. A key source of information should be the accounts published by all tiers of government. Accounts have an important role in helping citizens, councillors and social movements to hold local government to account for what it does (Ferry, Eckersley and Zakaria, 2015). Accounts are useful because they are audited and the information within them has been cross-checked and verified. We also know that it is crucial that accountability goes further than the pure financial information but allows comparison of performance and financial resources (Ferry, 2019). Central government audit in the UK has a wide remit, including value for money and allowing the auditor to assist both the Public Accounts Committee and the rest of Parliament (Midgley, 2019). However, the reforms to the audit regime in local government in the 2010s have left us with a system that concentrates purely on financial data in accounts, making the account the principle instrument of local authority accountability - with some limited managerial disclosures about value for money arrangements being in place (Ferry, 2019; Ferry and Ahrens, 2021). This restricts the role of the auditor to checking the validity of the accounts and making limited disclosures about value for money (Ferry, 2019). The Redmond review (Redmond, 2019, p. 60) suggests, amongst other things that this new system of local government accountability is not working and singles out local authority accounts for criticism based on their complexity and lack of performance information. The academic literature supports Redmond's view (de Widt et al., 2020).

In order to improve local government accounts, we think that one central point needs to be acknowledged. Government accounts in general are doing different things from private sector accounts. Notions of profit and loss, solvency and bankruptcy are mostly irrelevant in the

public sector - whereas issues like democratic accountability, financial sustainability, financial and service resilience and equity are more relevant in the public sector. We think that one way to approach the problem of what local government accounts should include is to work out what function they should be performing and what local electors should be getting from them, in a world after the abolition of the Audit Commission and some of its inspection and other functions. We believe as suggested by Redmond that this would inevitably include performance and financial information being brought together and also include more interest in how to make the data accessible to users of the accounts (Ferry and Murphy, 2018; Murphy et al., 2019).

In 2017, the Public Administration and Constitutional Affairs Committee (PACAC), faced with a similar problem in central government accounts, articulated four purposes for financial accounting and accounts in central government (PACAC, 2017). The purposes were to enable Parliamentary accountability, enable scrutiny of value for money, be credible and provide information to managers within central government. This approach has since been accepted by the Government for central government accounts (Treasury, 2019).

We think that a similar exercise needs to be performed in the context of local government accounts in the UK, identifying what their purposes are. We believe Parliament is in the best place to do this - either in this committee or the Housing, Communities and Local Government Select Committee - to perform this role as stewards of the entire constitutional settlement and we think that without this exercise, it is hard to see how local government accounts will, in the future, improve and consequently, how audit can fulfil its potential as an instrument of democratic accountability.

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ⁱ Dr Laurence Ferry is Head of Department and Professor of Accounting at Durham University Business School, Member of the Senior Common Room at University College, Durham University, UK, and a Senior Distinguished Visiting Fellow at Rutgers University, USA. Between 2018 to 2020 he was a Parliamentary Academic Fellow and then Adviser to the Housing, Communities and Local Government Select Committee looking at public accountability, especially in local government. He holds a PhD in Accounting from Warwick Business School and is a Fellow Chartered Public Finance Accountant (FCPFA). Senior level experience has been gained from posts held in both central and local government in the UK, and advisory roles internationally.

ⁱⁱ Dr Henry Midgley is Assistant Professor of Accounting at Durham University Business School, UK. Before taking up an academic appointment, he acquired over a decade of professional experience with the National Audit Office as an Audit Principal and on secondment to the Scrutiny Unit and Public Administration and Constitutional Affairs Committee where he advised PACAC on the Committee’s two inquiries into the format and purpose of Government Accounts. He holds a PhD in History from Cambridge University, degree from Oxford University and is an ACA Qualified Member of the Institute of Chartered Accountants in England and Wales.

May 2021