

Written evidence submitted by Andrew Rowson

Introduction

I am a former auditor at a big four accountancy firm. I have twenty-five years' professional experience implementing, upgrading and troubleshooting tier one ERP business software systems. I have engaged professionally and as a taxpayer with local authorities for fifteen years. In the latter capacity I have been involved in six formal objections to local authority draft accounts and countless investigations into Transparency Code data integrity, alleged procurement and other fraud and alleged corruption at the top of local authorities. I am submitting this evidence as a taxpayer because my perception is that the agencies making up what used to be called the local government accountability system too often do not work together in the public interest, and some, including local auditors, sometimes appear to work against it.

Summary

My conclusion, from personal experience working alone and with others, is that taxpayers can have zero confidence in the integrity or truthfulness of local auditors, who in all four cases described below appear to have been in collusion with their clients and/or involved in lies and cover-ups over matters of alleged material false accounting (up to £60 million), and in covering up for alleged fraud and corruption involving senior officers and elected members.

Delay appears to be used by auditors and local authorities as a tactic to thwart and wear down objectors or to buy time, enabling compromised officers to retire or move on, and in one case apparently to wait until a local authority ceased to exist.

The requirement for conciseness in this submission precludes comprehensive documentary evidence being presented here. Everything stated in the four cases below is supported by comprehensive documentary evidence that I would be happy to share with the Public Accounts Committee.

Case 1 – Local Government Shared Services – 2014/15 accounts

Following complaints to the NAO and the Public Accounts Committee in 2013 about the lack of governance and accountability at Local Government Shared Services (LGSS),¹ the Audit Commission instructed the entity to start producing annual accounts, and appointed KPMG as the local auditor. LGSS was not a company but a virtual body controlled by a non-statutory joint committee. It had no general ledger and no bank account. Its financial statements from 2013/14 were constructed from disparate sources at Northamptonshire and Cambridgeshire County Councils. It did not submit or receive service invoices to and from its parent authorities. The bank balance in the first two formal

¹ LGSS – *miracle cure, or house of cards?* – Cllr Nichola Harrison (Cambridgeshire CC), April 2013

annual accounts was simply the balancing figure that made the notional “trial balance” balance once all the other primary accounts items had been assembled. To all intents and purposes LGSS’ accounts were constructed from smoke and mirrors, and were un-auditable in the conventional sense.

In the 2015 accounts inspection I asked to inspect and have copies of LGSS’ detailed income and expenditure transactions that should have made up the bulk of the Income and Expenditure account,² but which I suspected did not exist. I was denied the information on the grounds that it would be too onerous to produce. I submitted an objection to the KPMG audit partner Andrew Cardoza. Over the next 19 months Mr Cardoza failed to address any of the substantive points and made several demonstrably false statements in writing and in public meetings to the effect that I had received the above information, and that he and I had had several phone discussions to resolve the many points in the objection. I wrote to him on ten occasions asking him to retract and apologise for his false and misleading statements. He did not do so. In February 2017 KPMG gave LGSS an unqualified audit opinion. Mr Cardoza’s statement of reasons dated 27/2/2017³ was perfunctory, evidence-free and included a series of findings, stating his opinion, such as:

- 1) *“It is my view that I do not agree with your view that LGSS cannot keep proper accounting records without a bank account.”*

I submitted formal complaints to KPMG, the ICAEW, and the Local Government Ombudsman, all to no avail. The following March Mr Max Caller CBE’s Best Value Inspection report on Northamptonshire CC made several comments about LGSS, including:

“There are a number of areas where the relationship with LGSS at best confuses accountability and at worst prevents it.”

In 2020, following a critical CIPFA report on LGSS, the body was effectively closed down.⁴

Case 2 – City Deal Grant Arrangements for Cambridgeshire - 2017

In April 2015 the government paid Cambridgeshire County Council (CCC) the first of five annual £20 million tranches of the £100 million Greater Cambridge Investment Fund (Capital) Grant. In CCC’s 2015/16 financial statements the £20m was correctly recorded as revenue in the Income & Expenditure account. The first draft of the 2016/17 accounts also recognised the £20m April 2016 grant determination as revenue for the year. It was later amended to recognise £80 million grant revenue that year, with £60 million being added to useable reserves. CCC’s materiality threshold for 2016/17 was set by the auditor at £16.5 million.

The Section 151 Officer Chris Malyon, apparently supported by BDO Audit Partner Lisa Clampin advanced the argument that the CIPFA Code on government and non-government grants required them to be recognised immediately in the comprehensive Income & Expenditure Account except if conditions apply that have not been satisfied. According to the S151 officer no conditions applied to this grant, and so, according to them, the full £100m should have been recognised in the previous year, and corrections needed to be made, including adding £60 million to useable reserves as at 31st March 2017 - despite the fact that those grant monies would not be received in full until April 2019.

² Local Audit & Accountability Act 2014, S26

³ This and other related documents available on request

⁴ <https://www.lgss.co.uk/>

This would appear to be a misinterpretation of the relevant section of the CIPFA Code on Government and non-Government Grants, which states:

2.3.2.7 Grants and contributions, including donated assets, shall not be recognised until there is reasonable assurance that:

the authority will comply with the conditions attached to them,
and

the grants or contributions will be received.

2.3.2.8 Grants and contributions relating to capital and revenue expenditure shall be accounted for on an accruals basis, and recognised immediately in the comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition(s) (as opposed to restrictions) that the authority has not satisfied.

I have copies of the final three £20m grant determinations dated April 2017, April 2018 and April 2019. They all contain the same condition - that the grants have to be used in accordance with regulations under S11 of the Local Government Act 2003. It would have been impossible for the government to know in 2017 that the remaining three years of grant would comply with the conditions, and in any event, recognising £60m of revenue up to three years before it is actually received and can be said to be in the useable reserves breaches the accruals basis of accounting. For these reasons a former Councillor and I submitted an objection to the 2016/17 accounts. In the nearly four year since then, the auditor had not addressed the matter with the objector. The 2016/17 financial statements were signed off on 12th October 2017. The auditor acknowledged the outstanding valid objection but maintained that in her opinion it was not material.⁵ £60m is over three times the materiality level set by the auditor that year.

The last communication the objector had from Ms Clampin was in September 2020, when she promised to conclude work on the 2017 objection by December and write to the objector with her findings. He has heard nothing from her since then.

That outstanding objection, and the outstanding objection to BDO the following year have produced a logjam such that CCC's current independent auditor partner, EY's Mark Hodgson claims he cannot begin to address two further objections submitted in 2019 and 2020, or even opine on whether he might consider them valid objections until BDO concludes the objections from 2017 and 2018, and so certify those two sets of financial statements. The more recent two objections contain several material matters that have nothing to do with the earlier two objections. They include an allegation of alleged fraud by a senior elected member, and a separate allegation of fraud against two senior officers, one of whom has retired this month.

Case 3 – Northamptonshire County Council – 2018-2020

In December 2017 I wrote to then Secretary of State Sajid Javid with comprehensive details of alleged financial irregularities and fraud at Northamptonshire County Council (NCC). Ten days later Mr Javid announced the Best Value Inspection headed by Mr Max Caller CBE. Details of the allegations were passed to Mr Caller. One such concerned NCC's former Director of HR Christine Reed who, as LGSS Director of People, Transformation and Transactions allegedly engineered her own "redundancy" days after her 55th birthday. On the same day as her redundancy (30th

⁵ See Local Audit & Accountability Act, S20 (4).

September 2016) she secured a lucrative contract with NCC/LGSS through her recently set up sole trader company⁶ to continue doing essentially the same work as before (continuing to programme manage the £10m “ERP Gold” IT system implementation) at a rate that soon rose to £750 day, while still collecting her pension.⁷ Her £260,000 redundancy package consisted of £51,000 “compensation for loss of office” and £209,000 “pension strain”. Over the next thirteen months NCC’s Transparency Code payment data show £201,000 worth of payments made to Gradon Consulting Ltd.

Mr Caller’s report alluded⁸ to this matter, which he passed on to the independent auditor (KPMG) in good faith to investigate. For many months KPMG reported to the Accounts Committee that it was having difficulty obtaining the requisite information from the authority. Eighteen months later, the audit firm reported the following in its External Audit ISA260 Report for 2017/18, published in September 2019:

Investigations

Following matters raised during the course of the audit in respect of NEA Properties, and an issue relating to the re-engagement of a previously made redundant LGSS employee under a personal service contract, the Authority commenced two independent internal investigations into these respective matters.

As a result of this, and in agreement with the Authority, we therefore paused our work in these areas in order for the investigations to take place, with the intention that we take into account the work and findings of the Authority, and avoid possible duplication of effort.

KPMG washed its hands of the affair. There has been no public report to my knowledge of any progress by NCC, several of whose still serving senior officers would have needed to collude with Ms Reed to engineer her alleged bogus “redundancy” and simultaneous contract with her former employer. It is hard to see how, with the strength of unambiguous documentary evidence presented, the independent auditor could not have concluded its investigation within a few weeks. As auditor, it had the authority to demand to see any documents it needed from its client.

My complaints to KPMG’s senior partner and the ICAEW were ignored. A separate complaint addressed to CIPFA Chief Executive Rob Whiteman last year was initially dismissed on the grounds that I had not named any CIPFA members. After naming the relevant CIPFA members (former NCC Chief Executive Damon Lawrenson and former LGSS S151 Officer Matt Bowmer) a CIPFA investigation is now entering its second year.

Regrettably, letters to successive Local Government Ministers on the subject have been met with silence or the response that “councils are accountable locally”. Northamptonshire County Council is no longer accountable to anybody since on April 1st this year it ceased to exist, being replaced by two unitary councils whose officers will doubtless have plausible deniability of any knowledge or responsibility in connection with the matter.

Of the seven Northamptonshire MPs I wrote to with the documentary evidence, all with the laudable exception of Mr Philip Hollobone MP either did not respond or claimed they could not engage with someone who was not a constituent. Mr Hollobone wrote to me and to the Local Government Minister Luke Hall MP with his concerns. The Minister’s response of 7th October last year was typical of the genre and displayed no appetite to do anything.

⁶ <https://find-and-update.company-information.service.gov.uk/company/10243993/filing-history>

⁷ <https://www.bbc.co.uk/news/uk-england-northamptonshire-43515915>

⁸ <https://www.gov.uk/government/publications/northamptonshire-county-council-best-value-inspection> - see paragraph 3.111

As you know, the actions that we have taken at Northamptonshire are the most severe open to the Government and fully reflects the seriousness of the failings found at the Council. I am aware of your support during this process and am most grateful for it. However, there is nothing further that the Government can do. If Mr Rowson wishes to take his concerns further, he could consider contacting the various professional bodies covering audit practice, especially the National Audit Office.

Yours ever,



LUKE HALL MP

Non-results such as these confirm the widespread conviction among concerned citizens that local government and local government audit is effectively an accountability-free zone.⁹

Case 4 – West Sussex County Council – 2019

In September 2018 I obtained Land Registry documents confirming that Mr Elvery, then CEO at West Sussex County Council (WSCC) still lived at his family home in Epsom. Epsom and Ewell Borough Council confirmed that Mr and Mrs Elvery were on the electoral roll there. WSCC's audited 2016/17 financial statements disclosed that Mr Elvery received £47,500 in "expense allowances" that financial year. Throughout 2018 Council officers, including Monitoring Officer Mr Tony Kershaw, repeatedly asserted in FOI responses and elsewhere that the payment was reimbursement for bona fide expenses Mr Elvery's incurred in relocating to West Sussex, including:

*"payments for temporary accommodation, for legal and estate agent fees associated with a property purchase and removal costs."*¹⁰

Mr & Mrs Elvery did purchase a second property, but only in August 2017, five months into the 2017/18 financial year. Estate agent fees are paid by vendors, not house buyers.

I gave the Land Registry evidence to WSCC's Chairman, Cllr Lionel Barnard, and to Private Eye. On December 13th 2018, two weeks after the story was published in Private Eye and picked up by the authoritative Inside Croydon blog,¹¹ WSCC's tax advisors – PSTAX wrote an email to HMRC¹² which they described as a "disclosure made on a voluntary and unprompted basis...following an internal review." The author claimed that after being poorly advised by officers who no longer worked at WSCC (and were untraceable), the CEO had mistakenly claimed £4,864 PAYE and NIC benefit in his 2016/17 P11D form on the first £8,000 of his reimbursed "relocation expenses". Mr Elvery is a CIPFA Fellow and formerly CFO at Croydon Council for eight years. The letter asserted that the expenses were genuine and had been reimbursed (a false statement). It only acknowledged that the benefit on the first £8,000 was misapplied because it did not meet HMRC's definition of relocation.

⁹ See for example <https://researchforaction.uk/democracy-denied-audit-and-accountability-failure-in-local-government>

¹⁰ E.g. https://www.whatdotheyknow.com/request/ceo_relocation_allowance#incoming-1130969

¹¹ <https://insidecroydon.com/2018/11/28/ex-ceo-elvery-and-the-mystery-of-the-47-500-removal-perk/>

¹² Email available on request

The claim that £47.5k worth of expenses were incurred moving to the new Chichester property was also clearly false because that property was only purchased five months into the following tax year - a key detail PSTAX failed to mention.

WSSC's HR director (a recent Elvery appointee and a former colleague of his at Croydon Council) produced a demonstrably false report on the matter in February 2019, absolving Mr Elvery of any wrongdoing and claiming the £47.5k had instead been an incentive payment on his appointment at WSSC. There is zero documentary evidence to support that assertion, which also thoroughly contradicts the PSTAX narrative. Between March 2019 and February 2020 I wrote five times to Helen Thompson, EY's audit partner for the WSSC account, setting out the evidence for the alleged Section 4 fraud by the Chief Executive, and later the PSTAX evidence of the alleged tax benefit fraud and the Council's comprehensive cover-up. I suggested the auditor might consider issuing a report in the public interest. In the first of five responses Ms Thompson commented that "*the responsibilities of the external auditor are narrowly defined*". She also wrote:

"As you are not a local elector, we will treat the information that you have provided as information received; and we will consider whether the matter needs investigation and action; or whether we can consider it more effectively within our planned work."

Her position did not change over the course of the correspondence, and no mention was made of the fraud allegations in EY's 2018/19 report to members or in its ISA260 report.

In September 2019 Mr Elvery was placed on gardening leave. He left the authority in November 2019 following publication of a critical report for the Secretary of State for Education on Children's social care at WSSC.¹³ The report highlighted several consistent themes, the first of which was:

"A strong and pervasive reported sense of management bullying, which starts at the top of the organisation and is felt implicitly if not explicitly to be legitimised politically and managerially throughout."

Protracted negotiations with lawyers, including £35,000 in legal fees paid for by local taxpayers secured a £265,000 exit settlement for the former CEO. The council, and in particular its new CEO, Becky Shaw are still covering-up and lying to local residents about material facts concerning her predecessor's alleged criminal behaviour.¹⁴

Postscript. In 2020 Mr Elvery was headhunted by Lord Porter, the former Chairman of the Local Government Association. Mr Elvery is currently employed as Head of Paid Service at South Holland District Council.

Final Word

Episodes like those above seriously erode the public's confidence in the local audit process. When members of the public are caught by councils abusing blue badges say, they are sometimes named and shamed by council leaders on council websites and punished with the full force of the law. When it comes to the alleged criminal behaviour often on a much higher scale of senior council officers or members, although some are eventually brought to justice, there is a widespread perception that for many others the political establishment (including local auditors) close ranks to

¹³ <https://www.gov.uk/government/publications/west-sussex-county-council-report-on-childrens-social-care>

¹⁴ Details available on request

protect and often to move on and rehabilitate alleged wrongdoers, ensuring that they evade proper investigation. Often large financial settlements and “vanilla references” are involved.

Local auditors’ fees may be insufficient and uncompetitive to carry out comprehensive audits at local authorities to the public’s satisfaction. That might be a pressing problem for central government to resolve. And it is not the external auditor’s job to seek out fraud and corruption proactively. But it is the auditor’s job and a statutory requirement to apply professional scepticism to their audit work. When they are presented with substantial credible evidence of alleged wrongdoing they need to investigate. Far too often, as with some well publicised instances in the private sector, local auditors appear to go to some lengths to look the other way and do their clients’ bidding.

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