CIPFA The Chartered Institute of Public Finance & Accountancy

Association for Public Service Excellence

The Local Government Commission 2030

A Submission by:

The Chartered Institute of Public Finance and Accountancy

December 2019

the people in public finance

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org

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13 December 2019

Secretariat
Association for Public Service Excellence
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Dear APSE Secretariat,

CIPFA would like to extend its thanks for inviting us to provide evidence to your independent inquiry in to the future role of Local Government. CIPFA has a key role in developing the future workforce of public finance, and is happy to work alongside any other organisation looking to improve Local Government working practices. Unfortunately due to time constraints, we are unable to respond individually to each question, therefore included with this response are a set of documents CIPFA have published that we believe will be helpful for your call for evidence.

Firstly, we attach our **Talking about Tomorrow***: Shaping successful local services* document which we have developed to create a sector wide conversation, to explore and identify what the best service delivery innovations can look like. Our goal with this document is to identify a set of recommendations that have been built from the ground up, with all practitioners involved in the conversation to take best practice from all in the field.

The three key components we have identified as starting blocks to stimulate the conversation are:

1. **Visionary leadership** – *defining a vision and securing buy in*
2. **Financial management and resilience** – *delivering this agenda sustainably*
3. **Future value and assurance** – *scrutinising progress and quality*

Secondly, CIPFA publishes Public Finance perspectives a magazine that invites the reader to reflect on topics which will be key for the future of public finance. Each issue includes papers written by leading public sector practitioners, who are authorative figures on the subject. The issues available most relevant for your consultation are:

- **Talking about tomorrow** – *People and place in a new age*
- **Fit for purpose?** – *Discussion on the future of audit*

I attach all mentioned documents with this cover letter, as the formal submission from CIPFA. We would be more than happy to meet to provide evidence at oral hearings and look forward to discussing this at a future date.

Yours sincerely

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CIPFA The Chartered Institute of Public Finance & Accountancy

talking about tomorrow

Shaping successful local services

About CIPFA

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our members and trainees work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

CIPFA is grateful to Kerry Lorimer for her work in writing this report.

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\ foreword

Local government is at a turning point. Councils are starting to reinvent the way essential local services are delivered while grappling with spending cuts on a scale never before experienced within the public sector.

The response includes the creation of new and innovative ways of delivering services designed to meet rising demand while maintaining financial stability.

A range of new arrangements and structures are emerging, from combined authorities to integrated care partnerships. Meanwhile, the growth of higher risk investment strategies has prompted concern over whether governance and control mechanisms are robust and fit for purpose. Questions are now being asked about whether councils have the tools they need to weigh up the affordability and long-term sustainability of the options they face.

This paper is intended to trigger a debate across the sector and beyond about how councils can develop a viable vision for the future which, at a time of declining trust in public institutions, is shared by the people whose lives it will affect.

None of these issues are easy, which is why debate is so crucial. I encourage colleagues from local government, the wider public sector and beyond to join the discussion to shape the success of local services in the future.

Rob Whiteman
CEO, CIPFA

\ introduction

A decade of austerity has forged a new public service landscape.

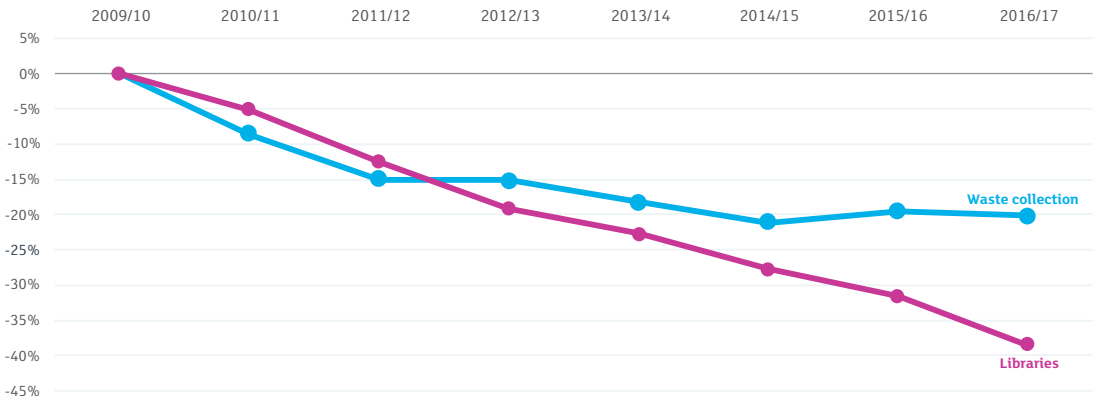
Higher expectations and demographic change are fuelling ever greater demand, while the shift from grant funding to reliance on council tax, business rates, fees and charges is nothing short of revolutionary.

Local government leaders face a conundrum. They have to ensure the continued health of local government finances and deliver statutory and other services within the parameters of their political mandate.

Councils are increasingly using their financial reserves to top up spending. Reserve levels fell by 5% between 2015/16 and 2016/17, while unplanned withdrawals rose from £114m in 2010/11 to £658m in 2016/17. The first iteration of CIPFA's Financial Resilience Index, which brings together a suite of indicators on financial reserves and budgets, showed that 10-15% of authorities are potentially at financial risk.[1]

The impact on frontline services is real. Just 87 councils were providing a weekly residential waste collection in 2017/18, down from 152 in 2010/11. Library numbers have fallen by 14% and shed more than 5,000 full-time equivalent posts since 2009/10.[2]

The impact on frontline services 2009-2017



Source: Ministry of Housing. Communities and Local Government, *Revenue Expenditure and Financing England*, RO2 and RO5

1 *Measured Resilience in English Authorities,* CIPFA, November 2019, www.cipfa.org/policy-and-guidance/reports/measured-resilience-in-english-authorities

2 Figures drawn from *Performance Tracker 2018,* CIPFA/Institute for Government, www.cipfa.org/policy-and-guidance/reports/performance-tracker-2018

But alongside these substantial problems are opportunities to look afresh at how services are provided, and to do things better. The election of a new and diverse group of councillors will bring fresh eyes to local government's challenges, while the advent of new structures, such as combined authorities and integrated care partnerships, focused on place, present opportunities to reassess how the sector's creativity and talent can be refocused, while maximising effectiveness, accountability and financial sustainability.

In the coming year CIPFA will be facilitating a sector-wide conversation involving councillors, officers and citizens to address the challenges of effective service delivery.

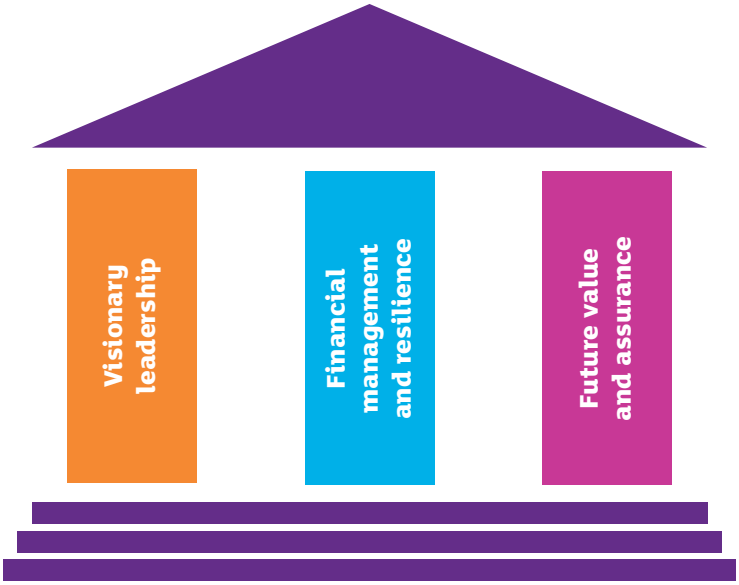
This conversation will explore what great service innovation looks like and what's needed to deliver it. What types of leadership, people and processes are required? And how can all of us in the sector collaborate to deliver? How do we interrogate performance challenges and measure success?

Our goal will be to identify a set of recommendations built from input provided by the whole sector.

This paper is intended to kick off that conversation, setting out three components and associated questions that CIPFA sees as key to shaping successful local services.

These are:

1. **Visionary leadership** – defining a vision and securing buy in
2. **Financial management and resilience** – delivering this agenda sustainably
3. **Future value and assurance** – scrutinising progress and quality



visionary leadership

Places need a plan. Political leaders must be able to craft a vision of a successful and sustainable place, and secure support from local communities.

The relationship between officers and elected members is key to delivering a strong and viable vision over which the authority as a whole can have ownership. To be successful councils have a genuine culture of communication, collaboration and ownership across their political and managerial leadership.

The best value inspection that followed the high profile collapse of Northamptonshire County Council in 2018 made clear that internal communication at the authority was weak.[3] A culture had taken hold in which backbenchers had very little access to information and challenge was actively discouraged.

Official warnings were not heeded. In 2015, the then Section 151 officer advised the council was in the throes of a significant financial crisis but "was not taken seriously", and overspending continued unabated.

The importance of timely and effective engagement between officers and members was one of the principal insights from an inaugural conference for councillors hosted jointly last year by CIPFA and the Centre for Public Scrutiny.[4]

Scoping an effective vision means listening to all members, not just portfolio holders, at the earliest possible stage. The emerging vision for a place must be one that is genuinely shared and endorsed by the council as a whole.

Making hard decisions

Developing and delivering a successful vision requires the courage and expertise to make difficult decisions.

Relationships become crucial. Members must have clear guidance on the impact of different options on services and communities and the trade-offs involved, while officials must have authority and influence.

Concern is mounting that the status of the Section 151 officer is weakening. A National Audit Office (NAO) survey found those who do not report directly to the chief executive feel less able to give unfettered advice and to provide challenging information to elected members and the senior leadership team than their peers who are represented at board level.[5] It is therefore worrying that LGC research recently found that 22% of section 151 officers do not report directly to the chief executive.[6]

3 *Northamptonshire County Council best value inspection,* January – March 2018

4 *Successfully balancing council budgets is not just about the cash,* Public Finance, September 2018

5 *Local authority governance,* National Audit Office, January 2019

6 Fifth of lead finance officers not at top table, LGC 14.6.19 **www.lgcplus.com/finance/revealed-fifth-of-lead-finance-officers-not-at-top-table/7029199.article?blocktitle=Top-stories&contentID=20100**

It is also of concern that CIPFA's 2018 ethics survey highlights that 57% of accountants working in the public sector have felt under pressure to act unethically by, for example, being asked to support over-optimistic budget forecasts, bypass policies and regulations and downplay risks.[7]

As councils come under increasing pressure to make difficult decisions, sound governance arrangements are vital to make sure the organisation's objectives are met. Leadership training can help senior managers and elected members embrace their new responsibilities and drive their organisations forward.

Engaging local communities

Councils must engage with local people to secure buy-in for the decisions that affect them. But first, councils must understand the diverse needs of their communities and how to communicate with them effectively.

Statutory consultations are required, and are tried and tested, but should not be relied on as the most effective way of connecting with individuals and groups and often fail to engage beyond the 'usual suspects'.

Local leaders must explore new ways of connecting with citizens and strengthening accountability and international examples such as participatory budgeting and citizen assemblies could provide useful models.

A culture of openness should be an integral part of how councils do business. That involves sharing information with those affected by council decisions and services, but more importantly, making it timely, relevant and meaningful.

Organisations with a good track record of transparency and engagement are more likely to gain support for difficult decisions, as people are better placed to understand why a particular choice has been made – even if they disagree with it.

Council meetings are held in public and decisions subjected to scrutiny, and local authorities are bound by a transparency code which sets out the minimum requirements for open data to be published in a timely way. But these are minimum standards. How can local authorities do more than just tick the box?

> "A culture of openness should be an integral part of how councils do business"

7 *Do the right thing,* Public Finance, September 2018

Talking points

How can relationships between members and officers be improved to create a genuine sense of ownership over tough decisions?

What can organisations do to ensure residents are more closely involved both in difficult post-austerity spending decisions and the design of the services of the future?

Is there a place for participatory budgeting and citizen assemblies?

financial management and resilience

Councils face the challenge of reshaping the services of the future within an increasingly testing financial environment.

This is not news. A wealth of data has accumulated over the years to show how much of the government's cuts programme has been soaked up by councils.

Institute for Fiscal Studies research, supported by CIPFA, identified a 22% cut in non-education services between 2009/10 and 2016/17. Poorer, grant-dependent councils with smaller and weaker council tax bases bore the greater brunt of cuts. More recently, the NAO highlighted that the financial position of local government has "worsened markedly" over the last three years, particularly for authorities with social care duties. With signs of financial pressure showing some non-social-care services have been affected. For example there has been a 33% reduction in the number of households receiving a weekly bin collection service between 2010/11 and 2016/17 and a 10.3% reduction in the library service points.[8]

CIPFA's Financial Resilience Index provides some insight into English authorities' financial stability and a future risk read out. While most are currently stable, up to 15% are showing signs of potential strain, which should be a call to action for the sector as a whole.

Later this year CIPFA will launch the Financial Management Code, designed to support good practice in financial management and help local authorities demonstrate financial sustainability. The code represents the first set of financial management standards for local authorities in the UK.

Based on principles rather than prescription, the code aims to help councils manage their finances over the short, medium and long term, increase financial resilience and cope with unexpected shocks to financial circumstances.

It builds on a substantial existing framework of statutory rules, including the Prudential Code for borrowing, which is being updated to reflect ongoing change in the sector.

> "Sound judgments require relevant, objective and reliable data, setting out available options and expected consequences"

8 *Financial sustainability of local authorities 2018*, National Audit Office, March 2018

Making financial choices

Local authorities need to assess their income levels, deliver services, meet rising demand and decide how and with who to fund projects, while maintaining financial sustainability. This means making tough choices.

For elected members to make sound judgments, they need relevant, objective and reliable data, so they can set out available options and expected consequences backed up by solid evidence.

For their part, finance officers must have the skills and experience to perform their role effectively. Chief finance officers must have the confidence not only to hold the financial reins of the organisation but the ability to build strong and robust relationships with members and provide rigorous analysis and challenge.

Managing risk

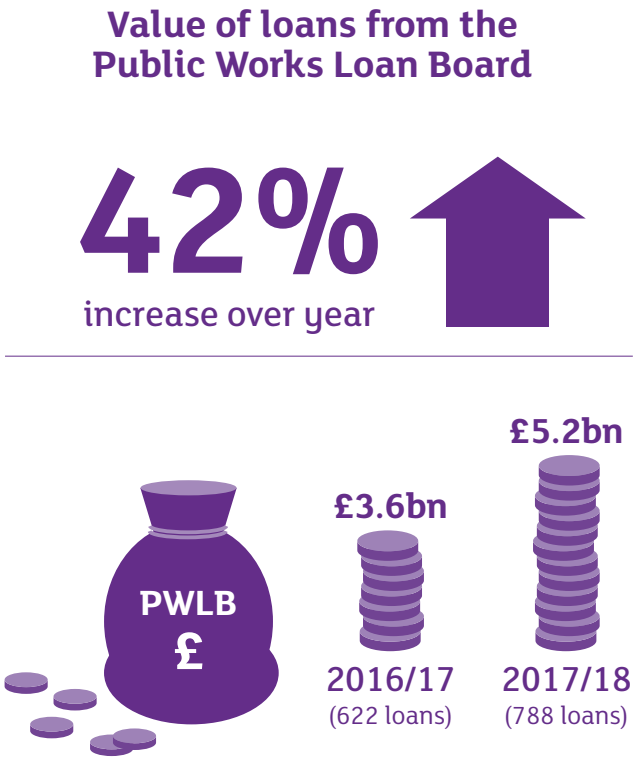
Councils are increasingly turning to borrowing for commercial investment as a response to cuts in government funding – but it is a course of action that may store up risk for the future and divert authorities away from their core mission.

Borrowing from the Public Works Loan Board hit a seven-year high in 2017/18, with the value of loans advanced to local authorities increasing by 42% over the year. A total of 780 loans with a value of £5.2bn were agreed in 2017/18, up from 622 loans worth £3.6bn the previous year.[9]

In response to this CIPFA is tightening the Prudential Code, which helps to ensure borrowing is safe and affordable, to curb the acceleration of out-of-borough commercial property investment which has heightened concern over the level of risk to which some councils may be exposed.[10]

We are urging councils to consider the risks implicit in dependence on commercial income, and warn that if commercial activity is undertaken purely to raise income, an extra degree of governance and transparency is needed, with independent advice required to ensure deals are sound.

If a council borrows purely to fund commercial activity, its investment strategy should explain why statutory guidance has been disregarded, how the money will be used, and what procedures are in place if the expected investment yield does not materialise.



9 *PWLB annual report, 2017-18,* www.dmo.gov.uk/media/15575/pwlbrep2018.pdf

10 The publication Prudential Property Investment will be issued later in 2019 – www.cipfa.org/publications

Talking points

Do councils have the right skills at their disposal to assess and scrutinise the risks involved in new financial models to ensure best value is obtained?

Are existing rules strong enough to address the risks inherent in the financial choices being made by councils, particularly the growth in commercial investments?

How can the sector secure best value and minimise the risk of contract failure and service disruption?

future value and assurance

The services of the future will be delivered within an increasingly complex public sector architecture involving pooled budgets, shared services, outsourcing and commercial services.

New delivery arrangements mean effective governance is more critical than ever. Without robust arrangements, local authorities are at risk of financial collapse and failure to meet statutory obligations. Against that backdrop, the role of those working in finance, internal audit and governance roles is all the more important – but these functions are themselves being pared back to save scarce resources, with potentially serious implications. CIPFA believes that rather than being seen as a costly overhead that should be cut actually this is exactly the time you need robust governance in place.

Internal and external controls are essential to ensure decisions taken are the right ones and help change direction if they are not. However, serious questions are being asked about what public audit is there to achieve, and whether existing arrangements are fit for purpose.[11]

Internal controls

Members and officers

Members have a duty to secure best value and are obliged to maintain a system of internal control. They may sit on audit committees to offer oversight of the authority's finances, or provide challenge through overview and scrutiny functions.

Officers with statutory roles, including the Section 151 officer, are responsible for ensuring decision-making complies with relevant codes and legal requirements. Employment protections allow officers to 'speak truth to power' and discharge their duties in a political environment.

Audit committees

Audit committees provide high-level focus on assurance, governance arrangements, risk management, control, and financial and non-financial performance reporting.

Although not statutory, audit committees form part of proper arrangements for financial management, with an important role in overseeing internal and external audit.

However, their effectiveness is a concern. Only 71% of external auditors felt the committee fulfilled its core function of providing independent assurance on the authority's governance arrangements, according to an NAO survey. Training for audit committee members and their ability to monitor value for money arrangements were a particular worry.[12]

11 *Local authority governance,* National Audit Office, January 2019

12 Ibid.

Independent voices are also lacking. CIPFA recommends audit committees include at least one independent member, but fewer than one in three do so.

Overview and scrutiny

Overview and scrutiny functions allow members to challenge policy decisions and the strategic direction of the authority.

However, these are at risk of being politicised and marginalised. Funding for scrutiny support staff has been cut back while the status and respect in which scrutiny functions are held is dwindling.[13]

Elected members need to feel confident that they can challenge. Councillors who attended the CIPFA/Centre for Public Scrutiny conference were candid about what they saw as gaps in their knowledge of financial governance, overview and scrutiny, and the fear they could fall foul of statutory and regulatory requirements as a result.

Interest in the idea of local public accounts committees is developing. These would take an area-wide view of spending, services and outcomes, helping bolster democratic accountability and improving scrutiny.[14]

External controls

External audit

Separate arrangements for public audit exist across the UK, with independent assurance on council spending provided by Audit Scotland, the Wales Audit Office, and the Northern Ireland Audit Office.

The closure of the Audit Commission in 2015 ushered in a reformed landscape for external audit in England. Public Sector Audit Appointments Ltd (PSAA), now appoints auditors for 98% of local authorities, setting fees and overseeing audit delivery by private firms who bid for contracts.

But warnings are being voiced about the soundness of the local audit regime particularly across England. In his independent review of the Financial Reporting Council, Sir John Kingman noted that PSAA arrangements were prioritising cost reduction over audit quality. This is especially concerning at a time of extreme financial pressure and rising speculative investment by councils.[15]

Meanwhile, the NAO has noted that while auditors are increasingly highlighting weaknesses, these are often met with inadequate or complacent responses and that auditors are not using the full range of additional reporting powers at their disposal.[16]

> “Internal and external controls are essential to ensure decisions taken are the right ones and help change direction if they are not”

13 Ibid.

14 *Local Public Accounts Committees*, discussion paper, Centre for Public Scrutiny, February 2018

15 Independent Review of the Financial Reporting Council, FRC, December 2018, **https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767387/frc-independent-review-final-report.pdf**

16 *Local auditor reporting in England 2018,* National Audit Office, January 2019

We need to ask whether external audit is effective in its current form. Are auditors looking at the right things and what other changes might be required to ensure audit has impact? The NAO's recent consultation on the Code of Audit Practice provides a timely opportunity to explore these issues.

National oversight

Central government is ultimately responsible for the effectiveness of local governance and the Ministry of Housing, Communities and Local Government (MHCLG) has power to intervene formally or informally in cases of failure.

In practice, however, this oversight is fragmented and can lack transparency. The NAO has identified a lack of clear and active leadership driving coordinated change across the local governance system.[17]

Debate is needed over how national oversight works in practice, and how information is best shared across the sector to spot trends and identify risks.

We might need to shift oversight in a more proactive direction so it works to prevent failure instead of responding after the event.

Talking points

How can councils overcome the barriers to effective challenge by increasing the robustness of their audit and scrutiny functions, and in particular the role of audit committees?

How can the impact of external audit be maximised, and its findings made more transparent?

Is there potential to explore new models of public scrutiny, for example through the piloting of local public accounts committees?

17 *Local authority governance,* National Audit Office, January 2019

\ conclusion

Ten years of bruising funding cuts, rising demand and rapidly changing expectations have transformed the local authority landscape. Survival depends on a blend of courage, expertise and innovation.

Leaders need the vision to create successful places and the boldness to make tough financial choices, backed by an effective system of checks and balances to make sure decisions taken are the right ones.

The Section 151 officer is a critical safeguard in ensuring the authority's financial sustainability. Those who hold this post must have the freedom and professional status required to provide unfettered advice.

Elected members have a vital role to play in developing a sustainable vision for their local area, reflecting the needs and priorities of those they represent. As well as shaping service design, they need the tools to provide effective oversight and scrutiny: training, resources and access to key data.

As public services evolve into more complex and fragmented forms, citizens must become more involved in the decisions that affect them. Councils have made great progress in promoting open decision making, but more work is needed to give communities voice and influence.

Over the next 12 months, we will convene a vigorous debate on how these issues should be addressed.

In particular, we want to explore how relationships between senior officers and all local authority members can be strengthened, and how residents can become active and informed participants in local decision making.

We will ask whether councils have the skills they need to assess the risks inherent in new financial models, and whether existing rules need to be strengthened to reflect the growth of commercial investments.

Finally, the conversation will look at barriers to effective internal and external challenge and how these can be dismantled, and in particular, the potential of audit committees to provide high level assurance over an authority's governance, risk management and performance.

We look forward to you joining us in this conversation as we discuss the challenges of tomorrow and consider how we shape successful local services.

how CIPFA can help

CIPFA (The Chartered Institute of Public Finance & Accountancy) is the world's only professional accountancy body to specialise in public services.

Our purpose is as focused and unique as the members we represent. In the UK, against a backdrop of major funding cuts, we are encouraging greater appreciation of finance professionals who are equipped to deal with the shifts of democratic decision making as well as market forces. Internationally, we are experiencing a surge of interest in our services as more governments seek to offer their citizens a sustainable and effective public sector.

CIPFA members work across all public services. They manage the largest budgets under the greatest scrutiny – that's why the CPFA designation is widely recognised as the benchmark qualification for public service finance.

In addition to our professional qualification, we champion high performance across the public sector through information and guidance, courses and conferences, property and asset management solutions, advisory and recruitment services for a range of clients.

Against a backdrop of substantial budget cuts, delivering services and balancing budgets will continue to be a major challenge for local authorities. CIPFA supports and works with local authorities to help them strive to be not only financially resilient – but also better serve their communities and reinvent the way local services are delivered.

Guidance | Information | Data | Networks | Learning | Advisory | Standards

Contact us to discuss how we can help you and your local authority:
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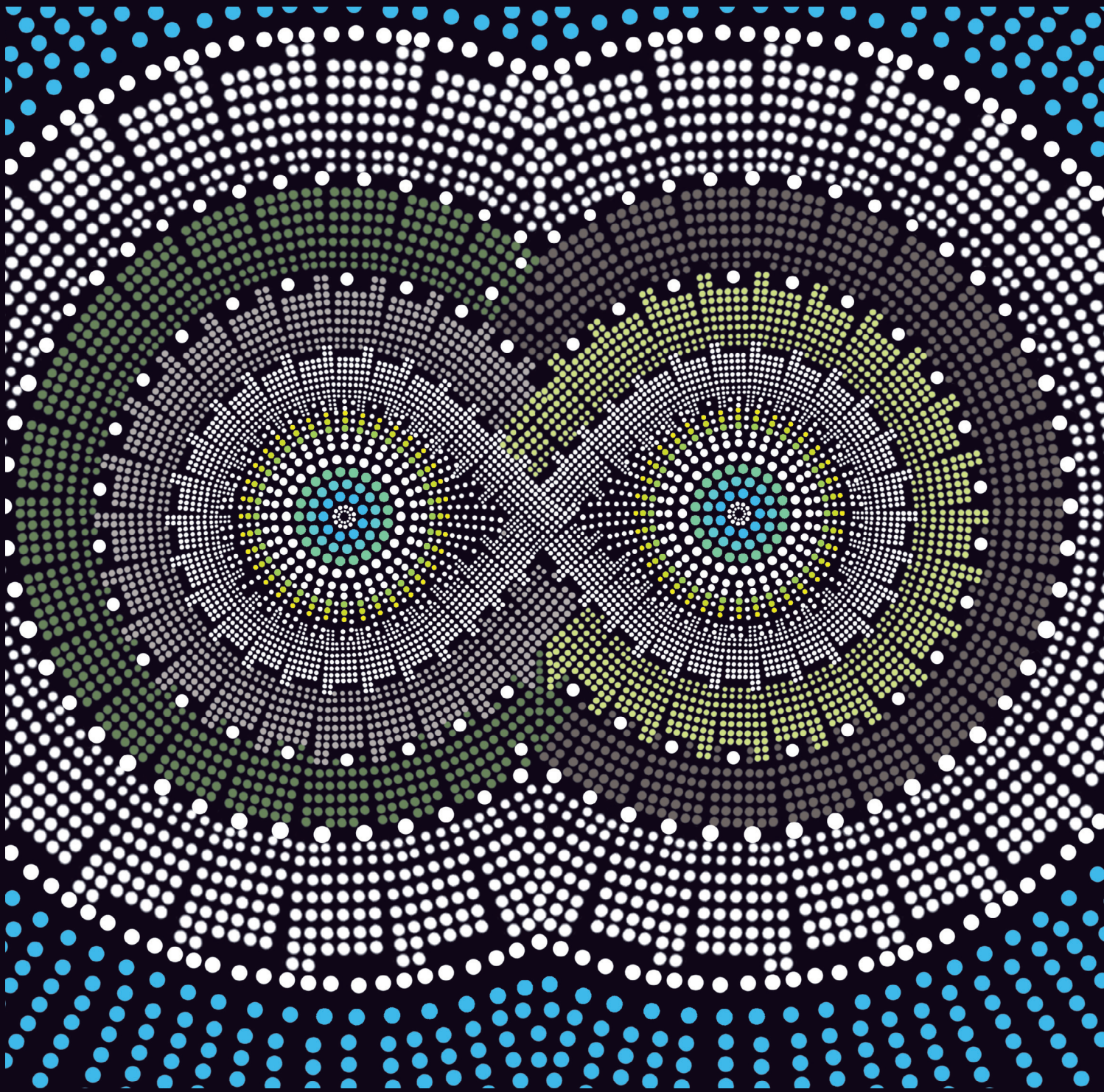
INVESTORS IN PEOPLE

06/2019

Fit for purpose?

JULY 2019

Discussion on the future of audit



CIPFA The Chartered Institute of Public Finance & Accountancy

PF Perspectives

This is the ninth in a series of *PF Perspectives*, produced by CIPFA and *Public Finance*. They are designed to stimulate discussion on key public finance and policy issues. These essays, by leading public sector practitioners and experts, examine the future of the audit process and its implications for the financial management and delivery of public services

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FOREWORD

ROB WHITEMAN
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It is absolutely vital that our public institutions are able to gain and retain the trust of the public. Audit has a key role to play in this.

Local audit is the long-stop for financial and governance failure and is a vital means of providing assurance and accountability to the public, stakeholders and government. But with financial failures in both the public and private sectors making such a splash in the press, it's no wonder that public trust is turning to public scepticism.

There have been significant shifts in the approach to audit in many areas of the public sector. The passing of the Local Audit and Accountability Act 2014 signalled the end of almost two centuries of district audit, and the creation of new local audit arrangements to scrutinise councils and other local authorities.

While this change may have generated savings for councils – a valuable benefit given the cost pressures faced by local government – a real question has been raised around the consequences of valuing cost over quality. As comptroller and auditor general Gareth Davies points out in this edition of *Perspectives*, this question is particularly pertinent at a time when authorities are turning towards commercial investments to generate revenue. When entering into these more commercial activities, the need to manage risk well and account properly for assets and liabilities is becoming more and more important. Such investments carry unfamiliar risks, meaning more assurance is needed, not less.

It's clear that these shifts, both in the way local audit is delivered and the broader context of austerity and councils' responses, have presented challenges for local audit. It is more important than ever that the sector comes together as a community of practice to identify solutions to these challenges and forge a new way forward.

In the essays collected here, sector leaders consider the processes that scrutinise government and hold its institutions to account, and tackle the debate around the future of external audit head on.

What role should audit play in policymaking? Do auditors have the right skills to meet the needs of modern public bodies? What changes are needed to make audit more effective?

There is no single player that can take this forward. It is vital that everyone with a stake in this issue contributes to the debate in order to form a shared vision for a future that we can all get behind.

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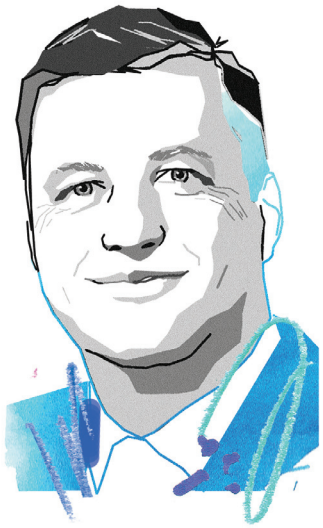
TRUST

Power to the audit

ESSAY



BY GARETH DAVIES

Public audit must create a clear, concise dialogue with people to regain their confidence and call out abuse where it sees it. But to do this, its independence must be protected, because without it we would all be poorer

Gareth Davies *is comptroller and auditor general, National Audit Office*

IMAGINE THERE'S NO AUDIT. I wonder if you can? No, not an extra verse, subsequently discarded, from an earlier draft of *that* song, but, perhaps, a timely thought given the chorus of anger and concern about the effectiveness of audit. If we don't have confidence that auditors will flag issues that threaten the sustainability of public services, or the survival of companies in the market, why bother?

Let's contemplate for a moment a UK in which tax-funded public bodies must report each year on what they've done with the money entrusted to them. There might even still be a set of standards setting out how they should do so. But what they say they've received and spent, and what they claim to have achieved, is not subject to independent external audit. The argument might be that public bodies are accountable to government, to Parliament or to their electorates and so their assertions can be challenged by the media, politicians and by the public – including those armchair auditors we've heard about. It might be said that it is in the court of public opinion, and ultimately through accountability to the electorate, that the value of public services is truly tested.

Continue with this thought, turn it over in your mind. Imagine...

So, even where minimum standards exist by which public bodies report their financial position, performance and achievements, what will the leaders and managers in this UK do when the going gets tough? When there are hard choices to make involving winners and losers, uncertainty and risk, how transparent and rigorous will the reporting be? Even in the most straightforward scenarios – for example, how much was spent? – there will be varying ways by which bodies could present their financial performance and position.

How confident would the public feel about what they are being told? How sure would we be that the way one body measures what it owns and owes is comparable to another's? To whom would we turn if we needed an objective and trusted view on whether public bodies are doing what we expect of them by making good use of our taxes?

Private sector lessons

Let's abandon my thought experiment. To have trust in public bodies, there has to be independent assurance about what public bodies say they do with taxpayers' money. It's needed to support effective transparency and accountability for the decisions of those who are stewards for the public purse, and to examine objectively what works and what doesn't in the pursuit of value for money. But that assurance must be relevant and reliable.

Even in the private sector, where criticism of auditors has been the angriest and loudest, there is no serious suggestion that we should do away with external audit completely and just leave companies to their fate in the market. The public's stake in these entities is too great and we recognise it is essential to have someone independent of management to provide assurance to the providers of capital. This is fundamental to the deal that goes with enjoying limited liability. Instead, rightly, there are calls to

strengthen audit, bring in more safeguards to ensure its independence, and better and more timely reporting based on a deeper understanding of the business and governance of the audited body.

In this respect there may well be lessons for private sector auditing from the public sector. Across the UK you'll see that public audit generally has stronger arrangements to ensure its independence, is wider in scope than company audits, and has an impressive track record of reporting without fear or favour. Public audit has the most impact when it can use its wide powers to cast new light and gain fresh insights on problems concerning governance, legality and regularity, and value for money.

Auditors can access people, information and systems, examine and report on annual accounts, and look at how well public servants exercise proper stewardship. But with these privileges and powers comes a heavy responsibility to support effective accountability, promote improvement in the use of public money and seek to improve the quality, impact and value for money of the audit process itself.

A new code of practice

What more can be done to further strengthen public audit?

Local public bodies in England are subject to audit under the Code of Audit Practice published by the National Audit Office (NAO). The NAO is currently considering how local public audit in England can be strengthened through a new code of audit practice – a new code that's needed no later than spring 2020.

Local public services in England account for a significant amount of public spending. In 2017-18, 495 local authorities, police and fire bodies were responsible for approximately £54bn of net revenue spending, and 442 local NHS bodies received funding from the Department of Health & Social Care of approximately £100bn. These bodies are also responsible for delivering many of the services local taxpayers rely on every day.

It is essential that the public has reliable assurance about how local bodies use and account for their money. But are local auditors focusing on the right things? Should they instead be looking to report more effectively on the present and future challenges facing local public bodies? For example, the effects of austerity, uncertainty arising from the UK's withdrawal from the EU, climate change, and the demographic changes increasing demands for services. Public bodies need to continue to innovate and find new ways of responding to these challenges, while maintaining the trust of taxpayers.

To take just one example, in recent years, the number of local bodies entering into partnerships with other organisations – including private companies – and the number looking into "commercial" activities to generate income streams to support new ways of delivering services has grown rapidly. When entering into these more commercial activities, the need to manage risk well and account properly for assets and liabilities is becoming more important. Private companies and lenders expect assets and liabilities to be properly accounted for in accordance with recognised standards. ▶

'It is essential that the public has reliable assurance about how local bodies use and account for their money'

Local auditors have a key role in providing independent assurance, not only about financial statements, but also arrangements to transform and manage services and finances sustainably. This integrated approach is a defining strength of the wider scope of public audit. However, there are concerns that auditors' work on arrangements to secure value for money has been crowded out by a combination of the volume of work needed on financial statements and the constraints of significantly lower fees. Through the NAO's work on a new code we want to look at how the focus and balance of work within an integrated local public audit has the right focus and impact.

To have impact, it is vital that when local auditors report findings, and especially when they flag concerns, their reports are relevant and accessible, especially to people without a finance background.

When organisations fail, or encounter significant difficulties, people often ask what the auditors were doing. Auditors need to ensure that where they are identifying risks and issues they draw attention to them promptly and clearly, so bodies can take appropriate action and the executive can be held to account.

The new code should play an important role in setting the expectations for when and how local auditors report issues to the bodies they audit. One way it could do this would be by introducing explicit principles of effective reporting, to make clear that local auditors should report on a timely basis – clearly, concisely and objectively, without fear or favour.

When reporting in public, auditors should use language that the readers will understand. Auditors should use the most appropriate form of reporting available and, if making recommendations, be clear what actions the audited body should take and when. More should also be done by auditors to follow up actions taken and to escalate their reporting if bodies aren't doing enough to address concerns.

Public audit matters hugely, but it must have the right impact. When so many are questioning the effectiveness of auditors we should reinforce the principles of public audit, its independence, wider scope and reporting.

As I embark on my term of office as NAO comptroller and auditor general, I am determined to see public audit – both nationally and locally – evolve to meet the needs of a changing society. Never has there been a greater need for independent, relevant and trusted auditing in the public interest. ●

'Auditors should use the most appropriate form of reporting available and be clear what actions the audited body should take and when'

When identifying risks, auditors must draw attention to them promptly and clearly... so the executive can be held to account

Looking up from the books

ESSAY

BY SARAH HOWARD

Public audit needs to re-engage with taxpayers, become less technical and put its energies back into value for money

Sarah Howard *is partner and head of public services at Grant Thornton UK LLP. She was CIPFA president in 2018/19*

IT WAS AT A GRADUATE recruitment fair in 1986 when the Audit Commission first caught my eye. The commission was in its heyday and public audit was an exciting place to be. In those days I learnt not just about the accounts, controls and stewardship, but also about economy, efficiency and effectiveness in public spending. I delved into planned and responsive housing repairs, the operation of direct labour organisations, legality of land sales and vehicle fleet management. We talked about probity, public interest, reasonableness and the Wednesbury principles. Audit was about making a difference and driving improvement. There was engagement with members and, in the extreme, the issuing of high-profile public interest reports and even surcharge.

Others, like me, were drawn to what is unique about public audit. I still work alongside colleagues who joined the commission the same time as me. We are all steeped in public audit, we care about how public money is spent and what excites us goes far beyond simply auditing the accounts.

It wasn't all plain sailing. I had a wobble, just after I'd passed my CIPFA exams. It was soon after, when I found myself sitting in front of a chief constable, discussing the correlation between control room demand (999 calls) and supply (resourcing), that I realised that public audit is the best job in the world.

I never looked back – until now. My year as CIPFA president has given me the chance to reflect and look to the opportunities that lie ahead.

The nature of public audit is significantly different now. We seem to have lost sight of what is important, those very things that attracted me and others to public audit in the first place. So how did we lose direction?

First, the commission was abolished. While the commission had lost its sense of purpose and suffered from scope creep, reform – not abolition – was the answer. Instead the failings of the commission were conflated with the public audit model underpinning it, and the principles of public audit (independent appointment, wider scope and public reporting) were cast aside.

The result was that trust was eroded, the expectations gap increased, and the impact of audit diminished. Auditors are no longer appointed independently in the NHS and independence has been weakened in local government. The scope of the audit (not to be confused with quality) has become too narrowly focused on the accounts. Value for money work is no longer having an impact at a time when the financial sustainability of the sector is precarious, finance colleagues are under immense pressure and risk in service delivery is increasing. Auditors are reporting less in public, yet the public's expectation of them is rising.

It is interesting that the debate about trust, the expectations gap and impact is very much alive in the corporate sector and are areas being considered by Sir Donald Brydon in his review.

The various functions of the commission have been dispersed and the regime has become fragmented. The scope of audit is set by the National Audit Office (NAO) in the Code of Audit Practice; procurement in local government is managed by Public Sector

Audit Appointments (PSAA); and quality is regulated by the ICAEW and the Financial Reporting Council (FRC). The broader oversight role of the commission has gone – notably its ability to look up and across local government and the NHS – so things tend to fall between the gaps.

Second, local government accounts have become far too long and complex in areas that do not impact on the general fund. This means that scarce audit resources are being diverted away from value for money and directed instead at technical areas of the accounts that appear to be of least relevance to taxpayers. Local government in England has done well in delivering early close, but this has created a significant peak in audit workload that the agencies in Scotland and Wales can not deliver. This can create pressure for NHS and local government audit teams working long days, weekends and bank holidays over a three-month period, causing recruitment and retention challenges. This at a time when, more generally, the respect that specialism in audit should command is at risk of being eroded.

Third, the regulatory regime is no longer tailored to public audit. In his review last year, Sir John Kingman pointed out that the FRC, which in the future will have a much wider remit, "is an expert in private sector corporate audit; and its expertise on, and detailed understanding of, issues relevant to local audit are currently limited". The complex accounting standards are also requiring the regulator to focus on aspects of the accounts that councils frequently tell us are of least relevance to local government. Other aspects of the corporate regime do not sit well, for example, the definition of "public interest entities" as authorities with listed debt bears little relation to where real risk lies in local government.

Finally, there is the matter of cost. Since 2012 the audit of local bodies in England has been provided exclusively by audit firms and fees have fallen by about 60%. Regimes in Scotland and Wales have not seen the same reduction. The consequence is that over time the number of firms involved has reduced. Firms have spent many years growing and investing in public audit teams around the country and remain committed to the market. At a time when over two thirds of engagement leads (a partner or director leading an audit) are over 50, this investment is critical in growing the leaders of the future. But with operating margins being squeezed it's easy to see a regime that is unsustainable, that fails to provide the assurance local bodies need or create an environment that will inspire a next generation of public auditors.

We need to remind ourselves what the purpose of public audit is and be clear about who it is for. While wider public interest is important, I believe we may be overlooking local taxpayers as a key stakeholder and we need to define, and then focus proportionate assurance on, what is most important to them. If we get that right, then we will have a chance of inspiring our future talent to build a career in public audit.

One solution, which Kingman proposes, is to recreate a single oversight body for public audit. The debate about that needs to happen urgently, but the government's current response risks kicking it into the long grass. In the meantime, there's no magic ▶

'Local government accounts have become far too long and complex in areas that do not impact on the general fund'

wand. Like many challenges facing public services, no one organisation holds the key. All stakeholders need to put aside short-term organisational priorities and join together behind one longer-term goal of ensuring the sustainability of public audit.

So, which road would I take?

First, we need to reset the scope of audit through the Code of Audit Practice. My firm has suggested how to do that, and increase public reporting, in our response to the NAO's code consultation. Getting the code right is critical to providing the assurance that local bodies and taxpayers need, and also in attracting and retaining future talent – offering the same rich experience that I had.

Second, we need to refocus time within the accounts audit to where it matters most. CIPFA has a key role to play in reviewing the accounting code to improve the usefulness of local government accounts, which, in turn, will improve the effective use of audit time. In order to further smooth the workload peak, I recommend moving the deadline for value for money work from July to September.

Third, and following on from the above, the regulatory regime needs to better focus on what is important to the users of public audit. We look forward to working with the FRC in considering how its regime can best meet the needs of taxpayers and other stakeholders, and how all of our actions and reporting can support the sustainability of public audit.

Last, we need sustainable fees to encourage firms to remain in the market. This is not simply about increasing fees. While getting the accounting code and regulatory regime right is key to ensuring existing resources are focused on areas of greatest risk from a taxpayer's perspective, PSAA also needs to have a conversation with the sector about what assurance it wants and is prepared to pay for. I welcome that the PSAA is considering how it will approach the balance between cost, scope and quality as part of the next procurement in such a way that will sustain a vibrant and balanced market, encouraging firms to remain committed to public audit.

Now is the time to take the opportunity to build on the rich history of public audit. All of us in the sector want the same outcome – good quality audit that meets the needs of local taxpayers – and we each need to embrace the challenge of change. Let's all engage the right gear and drive on to deliver a regime that delivers for all stakeholders and ensures that public audit remains sustainable for generations to come. ●

'All of us in the sector want the same outcome – good quality audit that meets the needs of local taxpayers'

One solution is to recreate a single oversight body for public audit. The debate about that needs to happen urgently...

The constant gardeners

ESSAY

BY GENE L DODARO

Independent information is crucial to helping policymakers sow the seeds of good government and weed out bad practice

Gene L Dodaro *is comptroller general of the US Government Accountability Office*

GOOD GOVERNMENT IS DRIVEN by facts and public audits help drive those facts. Auditors shed light on difficult issues by bringing together evidence-based reports that are crucial in the overseeing of government programmes and the allocation of resources to better serve the public.

In the US the oversight provided by public audit is more critical than ever given the opportunities and challenges facing the nation, including governmental fiscal health, national security and public healthcare.

The Government Accountability Office (GAO) is the supreme audit institution in the US. We are an independent, non-partisan professional services agency in the legislative branch of the federal government. Commonly known as the investigative arm of Congress or the "congressional watchdog", we examine how taxpayer dollars are spent and develop non-partisan, objective and reliable information to help lawmakers and agency heads make government work better.

To be useful, our reporting needs to be fact-based, non-ideological, fair and balanced. Public auditors evaluate and verify information that is assembled in evidence-based reports. These reports inform the decision making of elected officials and their staff. As a public audit institution, the GAO is committed to maintaining its integrity, objectivity and independence. These principles allow auditors to serve the public interest and maintain the credibility of public audit. If our reporting was not objective, it would not provide the unique information needed by lawmakers and agency heads to make decisions and operate the government effectively.

The US federal government is one of the world's largest and most complex entities; about $4.1trn in outlays in the fiscal year 2018 funded a broad array of programmes and operations. Public audit therefore needs to provide information to assist lawmakers and agencies in prioritising actions. In the fiscal year 2018, we issued 633 reports and testified 98 times before Congress.

The high-risk list

One of the GAO's key bodies of work is our high-risk list. This identifies government operations vulnerable to fraud, waste, abuse and mismanagement, or needing broad transformation. Every two years with the start of each new Congress, GAO issues an updated list describing the status of high-risk areas, outlining actions needed to ensure further progress and identifying new areas needing attention by Congress and executive branch officials.

The high-risk programme continues to be a valuable tool for congressional oversight, one that yields tangible benefits for the American people. Lawmakers use the high-risk list to help set oversight agendas and the findings have formed the basis for both agency-specific and government-wide solutions. The financial benefits to the federal government in addressing high-risk areas over the past 13 years (fiscal years 2006-18) stands at nearly $350bn, or an average of about $27bn per year.

Areas cited on the high-risk list include: Department of Defense financial

management and business operations; Medicare (health insurance for persons aged 65 and over) and Medicaid (a healthcare programme for low-income and medically needy individuals); veterans health care; postal operations; enforcement of tax laws; and the management functions at the Department of Homeland Security. The list also highlights areas where the government faces potentially large financial liabilities, such as billions of dollars in flood insurance claims, pension system guarantees and disability claims. The list also includes a number of areas that have a direct impact on the health, safety and wellbeing of the American people, including the control of toxic substances, food safety, oversight of medical products and protecting the nation's cyber critical infrastructure.

The audit report

Another key GAO product is our annual audit report, required by Congress, on how to reduce fragmentation, overlap and duplication in federal programmes, agencies, offices and initiatives, as well as lowering costs and increasing revenue. The imbalance between revenues and spending means federal government is on an unsustainable long-term fiscal path.

Addressing this problem will require broad fiscal policy changes, but our reports have identified a number of areas where improvements can be made in the near term. Resulting action taken by Congress and executive branch agencies, from 2011 to 2018, has led to about $262bn in financial benefits – $216bn through 2018, with $46bn more expected.

Elected officials and the American public rely on the GAO's work because it is fact-based and independent. Our high-risk list and annual report, as well as hundreds of other reports and testimonies on day-to-day government operations, are useful precisely because of our reputation for integrity and objectivity.

By suggesting improvements to federal agency operations, we help increase their spending effectiveness and enhance taxpayers' trust and confidence in government. When the GAO proposes change, federal agencies do listen: in 2018, 77% of our recommendations were implemented. However, Congress is concerned that some agencies need to do more.

In 2019, to spur progress, the GAO made public the letters we send to federal agencies with our recommendations to help improve the management of government programmes and operations, improve public safety and security, and achieve significant cost savings. Congress has also passed a law requiring each federal agency, in its annual budget justification, to report on any GAO recommendations that have not been implemented and their status.

To continue to meet Congress' growing need for information, the audit profession also needs to enhance its capacity in emerging fields. For example, we recently combined and enhanced our technology assessment functions, and science and technology evaluation into a single, more prominent office. This will expand the GAO's support to ▶

'If our reporting was not objective, it would not provide the unique information needed by lawmakers and agency heads to... operate the government effectively'

lawmakers on topics such as artificial intelligence, regenerative medicine, 5G wireless communication and quantum computing.

It is important for public audit to continue to provide fact-based information and reports, and for the GAO to strive to be a model government agency. This helps to enhance the profession's set standards for integrity, objectivity and independence. Moreover, the GAO by leveraging its domestic and international partnerships can build collaborative networks to share best practice with the wider audit and accountability communities.

The focus of our profession must continue to be providing evidence-based, independent reports. Maintaining independence is key to providing policymakers with objective information necessary to make decisions. These good practices can drive results to one overarching goal – effective and efficient government for the benefit of our citizens.

'By suggesting improvements to federal agency operations, we help increase their spending effectiveness and enhance taxpayers' trust in government'

CHALLENGES AND OPPORTUNITIES

Pulling in the same direction

ESSAY

BY TONY CRAWLEY

What are the challenges faced by those working within the new local audit landscape? And how can the industry create a sustainable market for the long term?

Tony Crawley *is chief executive, Public Sector Audit Appointments*

THE LANDSCAPE OF LOCAL AUDIT in England has changed considerably since 2010. We have migrated from a model where the Audit Commission controlled all aspects of local audit arrangements, to a plural system that is entirely dependent on firms for its audit supply. Public Sector Audit Appointments (PSAA), created in 2014 as part of these changes, procures audit services, makes auditor appointments and sets scale fees for the 484 public bodies that have opted into our national scheme.

After completing our first collective local government audit procurement, valued at £140m for five years, we asked Cardiff Business School (CBS) to review our performance and help us develop and progress. Its report concluded that our work represented "an outstanding example of sector-led improvement". This was particularly rewarding for the team given our compressed timetable, which meant that the invitation to tender and the contract design had to be finalised before we knew how many of the 495 eligible bodies had opted in to our offer.

CBS' report also provides an interesting analysis of, and commentary on, the new local audit landscape. Its value lies in its identification of the challenges to be addressed if the regime is to succeed in the long-term, particularly the emphasis on the sustainability of audit supply. This chimes with CIPFA president Sarah Howard's challenge to the sector, namely, where is the next generation of public sector professionals coming from?

Before considering sustainable audit supply in more detail, it is worth reflecting on the depth of the changes in the local audit framework since 2010.

The Audit Commission's control of local audit arrangements has been supplanted by a system that is dependent on a range of specialist firms. The Ministry of Housing, Communities & Local Government is the commission's residual body and has an overarching responsibility for the new framework set out in the Local Audit and Accountability Act 2014 (LAAA). The National Audit Office sets the Code of Audit Practice that establishes the scope of the auditor's work – it is consulting on the next version which will apply for 2020-21 onwards. The Financial Reporting Council and ICAEW have complementary regulatory roles and responsibilities.

So, what are the issues identified by CBS that need to be tackled to future-proof the new regime and assure its resilience and success for the long-term?

Working in the new landscape

First, with so many different players in the new system, we need to face up to the risk of fragmentation. All the bodies involved must have a shared commitment to the system's overall efficiency and effectiveness. We must all work collaboratively, respecting each other's specialist roles, to deliver a seamless, joined-up system.

Second, we need to be ready for possible changes impacting audit regulation, auditing standards and audit firms. By coincidence, the LAAA is being rolled out at a point at which there is significant government and public concern about auditing, following a number of high-profile corporate failures in the private sector.

Recommendations from the Kingman and Competition & Markets Authority reviews

are already in the public domain, with more to come when the Brydon review, looking at the quality and effectiveness of audit, completes its work. While the principal focus is on the audit of large companies, any resulting change in regulation, standards, firms or services will almost inevitably impact on local public audit. Some changes may be easy to accommodate, while others may be highly disruptive.

Third, if change has the effect of making the local audit market more or less attractive to suppliers, it may have a direct bearing on the sustainability of the audit model. This is a question that must be met head-on. We must also be alert to unintended consequences in important areas such as audit quality.

Local audit is a niche market in which there are fewer than 10 accredited suppliers, with six currently carrying out local government audits. Distinctively, there is no longer a state auditor in the system to guarantee full coverage and continuity. Given the total dependence on firms, we have to find a way of ensuring that the market remains competitive and sustainable for the long-term. This is not an issue limited to PSAA. It is also a real challenge for organisations in the NHS and elsewhere opting to make their own appointments, particularly those that are relatively remote geographically.

Possible solutions include encouraging more firms to enter the local audit market by lowering the barriers and the costs of entry. Could we, for example, provide interested firms with access to advice and support to ease the entry route? Or adjust our tendering arrangements to offer smaller "starter-pack" contracts for new entrants?

We are also carefully following the private sector debate on joint audit appointments, as they have the potential to enable new entrants to gain experience of local public audits alongside established audit suppliers. Could such arrangements work effectively in local audit – including the likely additional cost? Would local bodies be willing to accept the appointment of inexperienced auditors or joint auditors in the interests of developing a more sustainable market in the long-term?

Other, more radical, options may include some form of state or not-for-profit audit supplier. This, in turn, would pose questions around viability, affordability, political acceptability and competition.

Old skills and new timetables

The sustainability of the local audit market is not just about the attractiveness of the sector to firms. It is also about the availability of people with the right skills. Auditors are required to understand the nature and business of the organisations they audit, and have a detailed knowledge of the requirements of the relevant audit, accounting and governance codes.

Auditors must also look at the organisation's value for money, alongside their financial statements opinion, exercise a range of statutory powers and, in local government, deal with electors' objections. This all requires experience and expertise. In a system in which the market shares of individual firms may ebb and flow as contracts are won or lost, investment in training and development of local audit staff is likely to ▶

'The Audit Commission's control of local audit arrangements has been supplanted by a system that is dependent on a range of specialist firms'

fluctuate. This can lead to shortfalls in the supply of well-trained, suitably experienced audit staff. This is a particular challenge in audit leadership and management positions.

A further challenge arises from the local government accounts publication timetables introduced by the Accounts and Audit Regulations 2015 from 2017/18. This has created a pronounced spike in local government auditors' work in June and July each year to meet the non-statutory target date for publication of audited accounts of 31 July (previously 30 September). This has effectively halved the window for delivery and doubled the staffing requirement for this period. For most firms this follows on immediately from intense activity in April and May on NHS audits and we know it is a major challenge for planning and resourcing audits.

The local audit system clearly needs continuous investment in training and development of staff over an extended period. Options include securing contractual commitments from firms and/or developing some form of joint training programme for local public auditors.

Finally, all of the challenges and questions posed need to be considered in the context that the sector itself is subject to increasing pressures and is developing different strategies to respond to its new circumstances. In particular, several high-profile cases have focused attention on the financial resilience of local authorities. This in turn has highlighted the gap in expectation between the requirements of the current code and the desire of officers and members for reassurance about arrangements for financial resilience and sustainability.

The NAO's current two-stage review of the code provides an opportunity to discuss this issue and make appropriate adjustments. The debate alone will be valuable in terms of establishing a higher level of understanding of what auditors can and cannot do, and hopefully a consensus on what we want them to do within those boundaries. Their remit can be flexed, but it is not infinitely flexible.

The new local audit model has been successfully implemented, despite high levels of turbulence in the sector and the industry. That is no small achievement. But now it is up and running we need to look to the future and address some important issues to ensure that it remains effective and resilient for the long-term. No single party has a monopoly of wisdom to determine the precise road map that needs to be followed. We need all of the interested parties – the sector, the profession and all of the stakeholders of local audit – to engage and contribute to a collective response.

'No single party has a monopoly of wisdom to determine the precise road map. We need the sector, the profession and all of the stakeholders of local audit to engage'

Telling the whole story

ESSAY

BY FIONA KORDIAK

A number of high-profile business scandals has put auditing in the pillory. But a mixture of transparency, relevant skills and codes of practice – and good old-fashioned scepticism – can build back public trust

Fiona Kordiak *is director of audit services, Audit Scotland*

IN MY 30 YEARS as an auditor I've never seen the profession as under the spotlight as it is now. High-profile company collapses have dented public confidence in accountants, auditors and our regulatory regime. It hurts to see my profession pilloried in the press. And although attention has focused on the corporate sector, there is an obvious risk of contagion to the public sector. I now worry about the attractiveness of audit as a career for our new finance professionals. This is a shame as most public sector audit work is of a high quality and has a positive impact on public services. Audit has also provided me with a great career, full of variety and challenge.

The reality is that high-quality public sector audit has never been more important. Declining budgets, increasing demand and political uncertainty bring risks. The auditor general for Scotland, Caroline Gardner, concluded last year that decisive action is required to secure the future of Scotland's health service. Words not said lightly. Meanwhile, recent work by the Accounts Commission highlighted that recurring control weaknesses are becoming apparent in Scottish councils. South of the border, the problems at Northamptonshire County Council are an extreme example of what can happen when things go wrong.

We've had a flurry of reviews and reports in response to corporate failures and audit quality issues. Failure of independence, failure in the scope of audit, failure of audit quality and failure of regulation have all been highlighted. So how does public sector audit measure up against this?

Beyond the numbers

In Audit Scotland we are confident, but not complacent. Scottish public bodies do not appoint their own auditors – the auditor general and the Accounts Commission do this. Auditors are rotated every five years to avoid overfamiliarity and to bring a fresh eye to the audit. Financial audit work is undertaken by a mix of Audit Scotland auditors and firms (big four and non-big four), so we don't have the same issues of market concentration and lack of competition.

Debate has accused auditors of focusing on the numbers in the financial statements over considerations of financial sustainability and that they are being insufficiently challenging of management estimates.

The wider scope of public audit in Scotland goes beyond the numbers. Our performance audit work considers how well public money is used to implement policy, address risks and improve services and outcomes for people. Our code of audit practice for financial auditors ensures a judgment that goes beyond whether a body is a going concern, with auditors looking to the medium and longer-term financial horizons. For example, in addition to reviewing financial and savings plans, our auditors are increasingly expected to comment on the realism and likelihood of success of these plans, and report on that publicly.

We all recognise that complexity, lack of transparency and the extent of estimation are all factors in public sector accounts, particularly in local government where the ▶

'Our code of audit practice for financial auditors... goes beyond whether a body is a going concern, with auditors looking to the medium and longer-term financial horizons'

financial statements attempt to present the position in both accounting and funding terms. This means that some financial statements do not "tell the story" as clearly as they should. We know auditors can do more to work with their clients to streamline financial statements and improve clarity. To help, we've produced a good practice note on improving the quality of the performance report in central government and are planning a similar publication for management commentaries in local government.

Despite the wider scope of public audit, and arguably because of it, there remains a gap between what we do as public sector auditors and what the public think and expect. We don't have the power to stop things, change policy decisions or force public bodies to act in response to our findings. We need to be clear and unapologetic about our role and what it does and doesn't do.

We also shouldn't underestimate the power of public reporting and political scrutiny. There is nothing like the thought of an appearance at the Public Audit and Post-legislative Scrutiny Committee (PAPLS) – the Scottish equivalent of the Public Accounts Committee – to concentrate minds and galvanise action in response to audit findings. And we have clear escalation processes when needed. The controller of audit can make a statutory report to the Accounts Commission on any local government issue and the auditor general can make a statutory report to PAPLS. This provides a very public means of holding organisations to account.

Escalation, of course, only works if the auditor has found the issue in the first place. As soon as something goes wrong the cry goes up of "where was the auditor?" Sometimes they will have found the issue and reported it, but no action was taken. Sometimes there will have been a failure of audit quality – the auditor should have spotted the issue but didn't. Sometimes, however, the issue is simply not something the auditor could be reasonably expected to detect.

The right balance

Fraud is a good example of this. Auditors design their testing to detect material fraud, error and irregularity. But materiality extends to several million pounds in most public sector bodies, while I imagine most members of the public would consider a fraud of £10,000 as a sum of some importance. Public sector auditors also evaluate the adequacy of the arrangements that public bodies have in place to detect and prevent fraud. In Audit Scotland, we are thinking how we could better target this work to focus on high-risk areas. Could we do more? Of course we could, but at what cost? There is a debate to be had about the level of assurance we want from the auditor and what we are prepared to pay for it.

High-quality audit cannot be assured through rules and standards alone – by its nature it is judgmental and based on human decisions. The Financial Reporting Council (FRC) has highlighted that recent failures in audit quality have also included a failure to show appropriate scepticism.

It's a skill influenced by personality and circumstances, so some of us are just naturally more sceptical than others. But we do train our auditors on what is needed to deliver a sceptical audit through knowing the organisation, gathering the right

evidence, asking the right questions and challenging judgments through team discussion and peer review.

As in most things, there is a balance to be achieved. A team full of auditors at the extreme scepticism end of the trust/doubt spectrum would never finish an audit or develop a constructive relationship with their client. Care is needed to get the right blend in an audit team.

And we need to equip our auditors with the right skills and support to make difficult judgments. Even technical accounting questions are rarely black and white, and judgments can be more difficult in our performance audits or when considering questions of financial sustainability, leadership and culture. The stakes are high for getting it wrong. We aren't exposed to the high fines imposed on firms by the FRC, but we report in public on some very sensitive issues. Every member of our staff is acutely aware that the reputation of the organisation lies in their hands.

In Audit Scotland we already benefit from a team that isn't only comprised of accountants. Our performance audit team come from a wide variety of backgrounds and increasingly work in mixed teams with our financial auditors. But there are still gaps in our skill set. Sometimes we fill this by bringing in specialists for short-term assignments or using panels to test our findings. For example, we have recently established a youth panel to work with us to identify priority issues for young people and improve the relevance and targeting of our work.

Digital future

New technology is also having an impact on what we audit and the way we do our audits – auditing digital and digital auditing. We are increasingly using new visualisation tools to present our work. We have only started this journey but recognise that a lack of digital skills is slowing us down. We are reliant on a small number of skilled enthusiasts and need to both increase the size and resilience of our specialist team and train our audit teams to conduct data-enabled audits. This will not be easy as digital skills are scarce and expensive, but we can't afford not to.

As new financial powers come to Scotland, the impact of the performance of the Scottish economy on public finances is increasing so we need to improve our economic analysis skills to enhance our audit. In the future we are likely to make greater use of specialists, such as actuaries and valuers, to support the financial audit given the level of estimation and complexity in the accounts, and the increased focus on questioning management's judgments.

The audit of the future may look quite different from what we do today, with routine work automated and greater use of specialists to ask the right questions and interpret the results. But the mission of public sector audit won't change. We've seen the difference our work can make, with action taken by government before the ink is even dry on some of our reports. Our aim will be to continue to be constructive and forward-looking, providing assurance on the use of public money, identifying areas for improvement and recommending and encouraging good practice. That's the best way to build trust.

'We need to equip our auditors with the right skills and support to make difficult judgments. Even technical accounting questions are rarely black and white'

Called to account

ESSAY

BY PREM SIKKA

The auditing industry resembles a closed shop that polices itself, constantly blurs the line between providing and selling services, and is protected by government when things go wrong. There has to be change

Prem Sikka *is professor of accounting and finance at the University of Sheffield*

A PARADE of real or alleged financial issues at companies such as BHS, Carillion, London Capital & Finance and Patisserie Valerie has dominated news headlines in the past 12 months.

The 2008 financial crash was a clear sign that a complete overhaul of overall auditing processes was needed. But instead of carrying out a root and branch reform, regulators have sought to appease the auditing industry, rather than protect shareholders.

The industry's fault lines are many, but the emphasis here is on just three: auditor independence, audit quality and auditor liability.

Auditor independence

The principle of auditor independence is a key cornerstone of external audits relating to areas such as health and safety, food hygiene, taxation and immigration controls. In no case is the auditee permitted to directly hire or remunerate the auditor. Auditors are also not permitted to give business advice to the auditee.

In the world of financial audits, however, such norms are overturned. Companies are permitted to appoint and remunerate auditors and, even worse, auditors can become business advisers to companies. Such arrangements could create subtle pressures upon audit firms to appease company executives.

The auditing industry and the big corporations have long resisted the independent appointment and remuneration of auditors. Yet this arrangement works well elsewhere. For example, following the Local Government Finance Act 1982, the Audit Commission appointed and remunerated auditors for local authorities and a range of public bodies. All auditors appointed by the commission were generally forbidden from selling non-auditing services to audit clients, with the exception of statutory returns.

The big four auditing firms – PricewaterhouseCoopers (PwC), KPMG, EY and Deloitte – had difficulty in penetrating this market and lobbied for change. The Local Audit and Accountability Act 2014 replaced the Audit Commission with Public Sector Audit Appointments (PSAA), a company limited by guarantee and owned by the Local Government Association. The PSAA is responsible for appointing auditors to the principal local bodies: fire and rescue, police, national parks, waste authorities and transport. It also sets audit fees. Contracts are independently awarded to create a portfolio of clients that match a firm's capacity to deliver.

This model should also apply to about 7,500 large companies as defined under the Companies Act 2006. In addition, auditors of these companies must only conduct audits and no other business. This is to prevent them becoming part of the very transactions that they need to independently audit.

Some companies object to audit-only firms. Some claim that an organisational split, where audits and non-auditing services are separated by Chinese walls within one unified entity, is preferable. Such a structure, however, even where internal codes of conduct exist, does not curb the temptation for audit firms to sell consultancy services to clients. But a structural separation of audit from non-audit business is essential.

In resisting reforms, accounting firms may state that a structural separation would somehow constrain them from recruiting good staff. There is, however, no substance to this. You only have to look at the National Audit Office, HMRC and the Health and Safety Executive: all recruit multidisciplinary teams to conduct audits, made up of individuals familiar with accounting, tax, information technology, security, systems and law. There's no reason why accounting firms can't follow their example.

Separation anxiety

Some accounting firms also claim that a structural separation of audit from non-auditing business would somehow prevent them remaining part of their respective international networks. Again, such a claim has no substance. For example, many firms have offices in offshore jurisdictions. Such jurisdictions rarely require companies to publish audited financial statements. The firms in these boltholes have the ability to sell a variety of consultancy services, but are still part of international networks.

Organisational culture is a key ingredient in the manufacture and quality of external audits, but is not the subject of any public disclosure. At company AGMs, resolutions to (re)appoint auditors are not accompanied by any meaningful information. There is no information about the composition of the audit team, time budget, hourly charges, audit contract, major questions asked by auditors and the replies from directors, recent regulatory action against the firms or anything else. The public availability of such information would persuade firms to examine their organisational practices and also empower stakeholders.

Consider the case of former retailer BHS, which was audited by PwC. According to a published report by the FRC[1], the audit partner spent just two hours on the audit and 31 hours doing consultancy work for the company and its directors. The audit senior manager recorded only seven hours and was not involved in the final stages of the audit – while an audit manager recorded 29.25 hours and a "junior" team recorded 114.6 hours. Despite a record of losses, cashflow problems and withdrawal of financial support from its parent company, BHS received an unqualified audit report. The investigation by the FRC showed that the audit work in relation to a number of areas was inadequate.

Now imagine what would have happened if audit reports and resolutions to (re)appoint auditors were accompanied by information about the composition of the audit team, its time and budgets. That requirement would have encouraged reflections on organisational practices and checked some of the more corrosive ones. The public availability of this information, together with the audit contract, management representations and a list of recent regulatory actions against the firm would have enabled stakeholders to make an informed assessment of the desirability of appointing the firm as an auditor.

For far too long the auditing industry has sheltered behind secrecy and confidentiality to organise its own accountability off the political agenda. The public availability of audit files would enable stakeholders to assess the quality of recorded audit work: stakeholders ▶

'Organisational culture is a key ingredient in the manufacture and quality of external audits, but is not the subject of any public disclosure'

bear the cost of audits and should have the right to see the outcomes. In a consumer society, organisations from potato crisp manufacturers to airlines have to ensure that their product is fit-for-purpose and customers are compensated for poor quality of service. In contrast, successive governments have indulged auditors by granting them more liability shields without any quid pro quo. These shields include: no "duty of care" to any individual stakeholder; proportional liability under which auditors can only be held liable for losses arising from their own negligence; contributory negligence; limiting liability by trading as a limited liability partnership (LLPs) or limited company; and disclaimers of responsibility. It is almost impossible to sue auditors for delivering shoddy audits.

Audit liability

It is difficult to think of an economic theory or practice that suggests that the weakening of producer liability and of consumer or societal recourse incentivises producers to improve the quality of goods and services. This is even less so in the state-guaranteed market of auditing, reserved for accountants belonging to a few trade associations.

The FRC's 2018 annual report showed that 27% of the audits it inspected needed more than limited improvements. Lax liability laws have weakened incentives for diligent audits and do not encourage partners to police each other or strengthen the desire to improve the quality of audits.

Key reforms must include pinning personal liability on audit partners and their firms for the delivery of poor audits. Individuals and society at large must be empowered to sue negligent auditors, and auditors should owe a duty of care to individual stakeholders.

An audit is manufactured within the organisational context of the firm, which provides training, personnel, commitment, communicative and operational competence, technology, client recruitment and infrastructure necessary for the production of all audits. The firm receives the fee and its name appears on the audit report. The firm is central to the production of audits and must be held liable for any shortcomings. Any agreement enabling auditors to escape liability must be null and void. The veil of incorporation upon LLPs must be lifted and the Companies Act 2006 should be amended to state that where a partner of the audit firm acts negligently, fraudulently or colludes with directors, civil and criminal liability shall fall upon the partners concerned and upon the firm jointly and severally.

Inevitably, all this will be resisted by an industry that has got used to having its way. Audits are a means of securing trust and public accountability of businesses, and protecting stakeholders from financial malpractices. Governments have two basic choices: impose reforms in the teeth of opposition and/or develop alternative ways of delivering audits.

Prem Sikka was the chair of an inquiry into the auditing industry, commissioned by the shadow chancellor John McDonnell. It published a report in December last year: *Reforming the Auditing Industry*

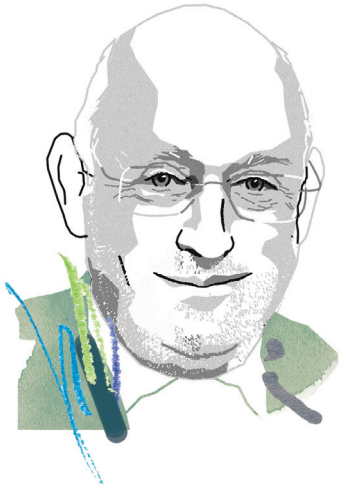
[1] FRC Report into PwC's auditing of BHS, published by the FRC, August 2018. To download the report, visit: **https://bit.ly/2nBSMo6**

'The FRC's 2018 annual report showed that 27% of the audits it inspected needed more than limited improvements'

FIT FOR PURPOSE

A local difficulty

ESSAY



BY MAX CALLER

Failures in local government are too easily blamed on a lack of due diligence, but is the problem down to councillors' political inexperience and not understanding the rules of the game?

Max Caller *is a consultant and was lead inspector for the Best Value inspection of Northamptonshire County Council*

IN RECENT YEARS there have been several accounting scandals. In the private sector, Carillion and Patisserie Valerie. In the public sector, Northamptonshire and Tower Hamlets councils.

The failure to either discover or act on these events until it was too late has led to calls to make changes to the way the audit process is regulated and organised. But are there other forces at work? Are we really saying that the system of checks and balances designed to allow the public to have confidence in the published state of an organisation doesn't work? And that it's OK for management failure not to be found out by the internal governance process?

While I'm not qualified to pass judgment on the private sector failures, the collapse of Carillion, which had significant interaction with the public sector, was not particularly surprising.

I am, however, well placed to comment on the local government context. I was the chief executive brought in to turn Hackney council around in 2000; one of the intervention commissioners imposed on Tower Hamlets during 2014-17 to bring it back from illegality; and the lead inspector who undertook the Best Value inspection of Northamptonshire county council in 2018.

Dealing with failure

Hackney was a failure arising from political chaos and inadequate management leadership not challenged by elected members. There was a complicated system of internal trading accounts that were never reconciled with the statutory accounts, and the budget was balanced using heroic assumptions on such things as tax collection rates, which were never capable of delivery. There was no shortage of external audit observations setting out concerns and qualifications. The district audit service had a very good handle on what had happened and what the current position was, often better and more insightful than many other external inspectors and commentators, and they were prepared to say so.

Without compromising its audit independence in any way, on my arrival, district audit was prepared to help by focusing its efforts on achieving maximum effect and providing constructive challenge on the road to improvement. What marked out this relationship was the fact that district audit understood both the business and the context. Its reports provided the springboard for the first use of powers under the then recently enacted Local Government Act 1999 to impose Best Value performance plans.

Tower Hamlets and Northamptonshire were different. In both these authorities there was a failure of leadership – both political and officer.

In the case of Tower Hamlets, the external Best Value inspection report found significant irregularities in a number of areas. Most notably, in the awarding of grant funding to the voluntary and community sector. All the processes that one would reasonably expect in other councils were absent, including proper documentation of the decisions themselves. Concerns had been raised but these had not been followed up on by

either the council's statutory officers or the external auditor. Yet the evidence was plain to see – in some instances because there was no evidence to support the decisions taken.

The Northamptonshire failure began with an unwillingness to accept fiscal responsibility by both leading councillors and officers, and a strategy promoted by a chief executive that had no underpinning analysis of risk and reality. Even after external audit had qualified the accounts as failing to meet Best Value principles, the authority still failed to act.

In both these cases it required an additional outside challenge before intervention by central government exposed the scale and scope of the issues, and allowed a path back to legality to be followed.

Never say 'never again'

While these cases are rare, they are not so isolated that we can confidently say "never again". Even today, I am aware of a small number of authorities that like to adopt a pick-and-choose attitude to statutory guidance when it comes to balancing the books, while ignoring the overall context. Their auditors have either signed this off or seem not to deem it worthy of comment.

Every time an event along the lines of Northamptonshire and Tower Hamlets occurs it means that all councils suffer from the resulting regulatory changes. We need to be careful that potential changes in the external audit regime do not follow in that same vein, even if, like myself, you are convinced that the current system is not fit for purpose.

The current system of checks and balances can only be successful if the culture of an organisation, its leaders and its compliance with a complicated set of rules are fit for purpose. This was covered in part by the Committee on Standards in Public Life in its review of local government ethical standards, published in January this year.

Evidence to the committee suggests that a culture of poor governance in some local authorities is, in part, due to the effect of spending restrictions, which has produced slimmer structures, and the added pressure of external audit fees. This has resulted in a hollowing out of knowledge, expertise and context. It is as though institutional memory and knowledge has been so eroded that no one understands how things are supposed to work, and how the system of checks and balances provides security and integrity. As the report states: "Scrutiny, oversight and audit process can stagnate when there is a lack of appreciation of why they exist."

Some councils know there are rules that need to be considered, however, the rules have no anchor or foundation in the culture and working practices of the organisation. They have lost sight of why the rules exist – Northamptonshire being a prime example. Those individuals with statutory responsibilities do not fully understand their roles, so fail to act or improve standards.

Being a good professional does not automatically mean that you can be a success as a statutory auditor, a section 151 officer with the remit of overseeing the financial health of the council, a monitoring officer, or a head of paid service. It is also not ▶

'Even today, I am aware of a small number of authorities that like to adopt a pick-and-choose attitude to statutory guidance when it comes to balancing the books'

clear how it is possible to gain the necessary experience to cope with the range of challenges these roles require in the new-style organisations. No longer will aspirant leaders go to meetings to be challenged by the public, draft coherent reports which meet organisational and legal requirements, or even understand how we got here. It is not clear that the various professional bodies, either individually or collectively, recognise this as a gap. They do not promote appropriate development programmes, or performance manage those charged with statutory responsibility.

In my view this is the biggest gap. Organisational changes designed to break up commercial groupings will not address the problem and may serve to make things worse by narrowing further the experience necessary to make sense of the data.

So, what can be done? Do we need specific targeted development opportunities aimed at equipping future office holders? Should there be a requirement for the attainment of a form of certificate of professional competence and regular mandatory development, either before or within six months of being appointed to a statutory role? How might we support these individuals when facing challenges they've never seen before, and how do we do this in real time? How best do we learn from the past, while recognising that things are changing quickly?

What is clear is that we have many good people who can lead when things are going mostly to plan, but less who can cope when things go wrong. The current framework won't reduce the incidence of public failure. There needs to be a much wider and considered approach, which looks at the system as a whole. ●

'We have many good people who can lead when things are going mostly to plan, but less who can cope when things go wrong'

Evidence suggests that a culture of poor governance in some local authorities is, in part, due to the effect of spending restrictions

Internal audit – beyond the crossroads

ESSAY

BY ELIZABETH HONER

In an increasingly complex world, with all the business risk associated with it, internal audit needs to adapt – and quickly

Elizabeth Honer *is chief executive of the Government Internal Audit Agency*

"WE CANNOT SOLVE our problems with the same thinking we used to create them." *Albert Einstein*

From small beginnings

It's 9 December 1941, two days after the attack on Pearl Harbour. Twenty-four men (one might assume), all internal auditors, convene in New York City. The Institute of Internal Auditors is born. Exactly what triggered the meeting on that particular date is opaque and no doubt coincidental to the shock that brought the US formally in to the Second World War. More relevant was that John B Thurston, internal auditor for a utility company based in New York and who became the Institute's first president, was agitating for internal audit to be recognised as distinct from, and not as an extension to, external audit. The need for that distinction continues to this day.

Internal audit has never been more needed than it is now. The scale and complexity of risks facing organisations is rising, with internal audit being well placed to influence better outcomes, combining deep business knowledge with objectivity. But with technology doubling in power each year, dramatically accelerating the pace and style of service delivery, as well as the way organisations are run, internal audit needs to change, and change quickly.

Risk just got riskier

A recent US study notes that "the magnitude and severity of risks affecting [their] organisations are greater in 2019 than in the prior year"[1], with boards perceiving a much riskier environment than their executive counterparts. Concerns that existing operations and legacy infrastructure may not be able to meet expectations, as well as those of competitors "born digital", has leapt from 10th to top position. Other risks in the top five are: succession and retention challenges; heightened regulation and scrutiny; cyber security; and resistance to change. That's the global picture, across different industries and sectors.

These risks chime with an analysis by the Government Internal Audit Agency (GIAA) of audit plans for the current year, with the notable addition of those arising from the supply chain in commercial arrangements and, perhaps inevitably, a lesser concern about regulation and scrutiny which is in the genes of government.

The same US study concludes that organisations need to realise "that the level of investment in risk thinking and their willingness to engage in robust risk management tools and dialogue is inadequate". Internal audit has a vital role to play here, in helping organisations assess and modernise their risk management capabilities and processes, in looking ahead and anticipating new risks, and, of course, appraising the effectiveness of the measures put in place to manage them. Internal audit, with its unique combination of deep internal knowledge and professional objectivity, is a power to be harnessed. A report by the Chartered Institute of Internal Auditors UK and the Institute of Directors reminds audit committees and directors of internal audit's ability "to speak with authority and objectivity about the entire business and the risks it faces"[2].

The 21st-century organisation

We live in an era of exponential developments in technology and data processing – a post-digital age some argue – which is affecting how services are delivered, but is also rightly prompting some to reconsider how organisations are run. Management academics acknowledge that their research is based "on an understanding of organisations that dates back to the 1950s, 1960s and 1970s"[3]. This sees control as coercive as opposed to enabling, with a focus on formal rather than informal control mechanisms, and where controls are singular not holistic.

All three forms of control, which I am sure we all recognise as still prevalent, not least in the public sector, are, the academics argue, "increasingly outdated for modern organisations as both organisations and the world has changed". Prompted by the need to deliver products and services more quickly, with a preference by employees for greater empowerment, modern organisations are restructuring to be less hierarchical, more fluid, flatter, using technology to enable teams to stay aligned.

These shifts have significant implications for internal audit. The purpose, as expressed in the CIPFA's Public Sector Internal Audit Standard, is "to improve the effectiveness of risk management, control and governance processes" and so "enhance and protect organisational value". With organisations changing, along with the nature of control, to become less formal and more dynamic, that does not alter our core purpose but, rather, the way we achieve it.

Transforming internal audit

Whatever the organisational paradigm, delivering essential services at best value to the taxpayer will remain paramount in the public sector. That will continue to require effective risk management, controls and governance. It is the way they are exercised that will need to be adjusted to meet the pace of change today, with internal audit needing to transform alongside .

We in the internal audit function are exploring and planning for what that means, for the methods, technology and skills needed. That in turn has implications for professional training and the continuous development of our people.

Methods

The pace at which risks are changing requires more agile internal audit methods that provide a real-time insight so swift adjustments can be made by management.

Traditional methods, of taking time to negotiate terms of reference, conducting fieldwork over a number of weeks, preparing a well-crafted written report and agreeing written recommendations, no longer work if findings are to be relevant in dynamic environments.

Such environments require a model that sees internal auditors both integrated more into the fabric of the business – analysing and commenting in the moment – and working more closely as communities of practitioners, sharing learning and insights across organisational boundaries for the good of the profession. How results are presented also needs to be dynamic, enabling management to drill down into the details as needed.

These changes present real challenges for internal audit, in how we remain truly independent and objective, how we respect confidentiality, and how and when we record our assessments and recommendations. Critically, the three lines of defence risk becoming blurred, raising questions about how to maintain them in the modern world or, more significantly, whether the model itself needs rethinking.

Technology

Data analytics are already changing how we audit, enabling a swift analysis of whole populations rather than samples and automatically flagging anomalies in the application of controls. But what about artificial intelligence (AI) and robotics? What do they mean for internal audit, both in how to audit them and in harnessing them in audit practice?

Ben Hammersley, a "futurist", warns that AI trains itself using existing data and so mirrors and even magnifies human bias. A critical role for internal audit, then, becomes auditing the culture and relationships in an organisation to understand those biases and the risks they present. Internal auditors in turn need to understand their own culture and biases, as the audit team of the future will undoubtedly include robots which have learned from existing audit data.

A further implication to our world, where data is king, is for internal audit to ▸

'The pace at which risks are changing requires more agile internal audit methods, that provide a real-time insight so swift adjustments can be made'

help organisations understand the data they hold and the risks they present. All organisations face exposure, either through accidental data loss or malicious intent by individuals, competitors or hostile nations – it may be blackmail or worse. Hammersley declares internal audit to be "the last bastion of self-defence", with its role to protect the objective truth of an organisation, finding out what could be known about it, however unsavoury, before others do.

Skills

New methods and technologies call for new skills. The internal auditor of the future will work with robots and humans in their teams, challenging traditional management techniques. They will be agile and flexible, in where and how they work, and even more intellectually nimble given the faster pace and increased complexity of their environment. Analysis will be automated, focusing the human auditor on interpretation and communication. An understanding of culture, relationships and the psychology of change will come to the fore. And all internal auditors, as a minimum requirement, will be "tech savvy".

But let's not forget the core skills of today's auditor – curiosity, an ability to create coherence from complexity, independence of mind, high ethical standards, influencing skills and the resilience needed to stand up to scrutiny and conflict. The need for these skills remains, creating a solid foundation from which our people can become the auditors of tomorrow.

External audit meets internal audit

I cannot close without mentioning external audit. Not least given the focus of this *Perspectives*. Internal audit cannot regard itself as immune from the recent and continued scrutiny of, and recommendations for, external audit. I shall leave others to debate whether internal audit will itself become regulated and comment on two elements only: lessons from the Kingman review of the Financial Reporting Council, and the current government-sponsored review by Sir Donald Brydon on the quality and effectiveness of audit .

Internal audit practices would do well to heed the recommendations of the Kingman Review, in particular: prioritising work on the basis of risk; acting in a forward-looking manner and anticipating as well as acting on emerging governance and audit risks; advancing innovation and quality improvements; promoting brevity and comprehensibility in reporting and being proportionate; and balancing the costs and benefits of recommended actions. I'd like to think we do these already, but there is always room for improvement and being reminded of their importance is helpful.

The perceived widening of the "audit expectations gap" – the difference between what users expect from an audit and the reality of what an audit is and what auditors' responsibilities entail – is the catalyst for the Brydon review. Recent company failures have brought this in to sharp relief.

Such an expectations gap exists with internal audit too – we're often judged by the things we miss, rather than what we spot and improve. I await the report with interest, eager to see what lessons may be applied to internal audit.

Some suggest that the improvements being sought in external audit, with calls for it to become more strategic and forward-looking, will reduce the role of internal audit or indeed erode it completely. By contrast, the role and significance of internal audit looks set to increase. The pace and complexity of modern organisations requires more real-time insight by those who are of the business, but remain professionally objective, and that's internal audit. But to fulfil that role in a dynamic environment, internal audit needs to change – and change quickly.

New generation internal audit has the potential not only to anticipate risk, but in doing so to also influence policymaking and service provision. The boundaries for public sector internal audit lie somewhere between helping organisations do things right and ensuring they do the right things. But where exactly? I look forward to the debate. ●

'Whatever the organisational paradigm, delivering essential services at best value to the taxpayer will remain paramount in the public sector'

[1] Executive perspectives on risk 2019, Protiviti. Download the report at **https://bit.ly/2IsTcsG**

[2] Harnessing the power of internal audit, Chartered Institute of Internal Auditors. Download the report at **https://bit.ly/2ZPkgl8**

[3] Cardinal, L; Kreutzer, M; Miller, C (2017), "An inspirational view of organizational control research: re-invigorating empirical work to better meet the challenges of 21st century organizations", *Academy of Management Annals*

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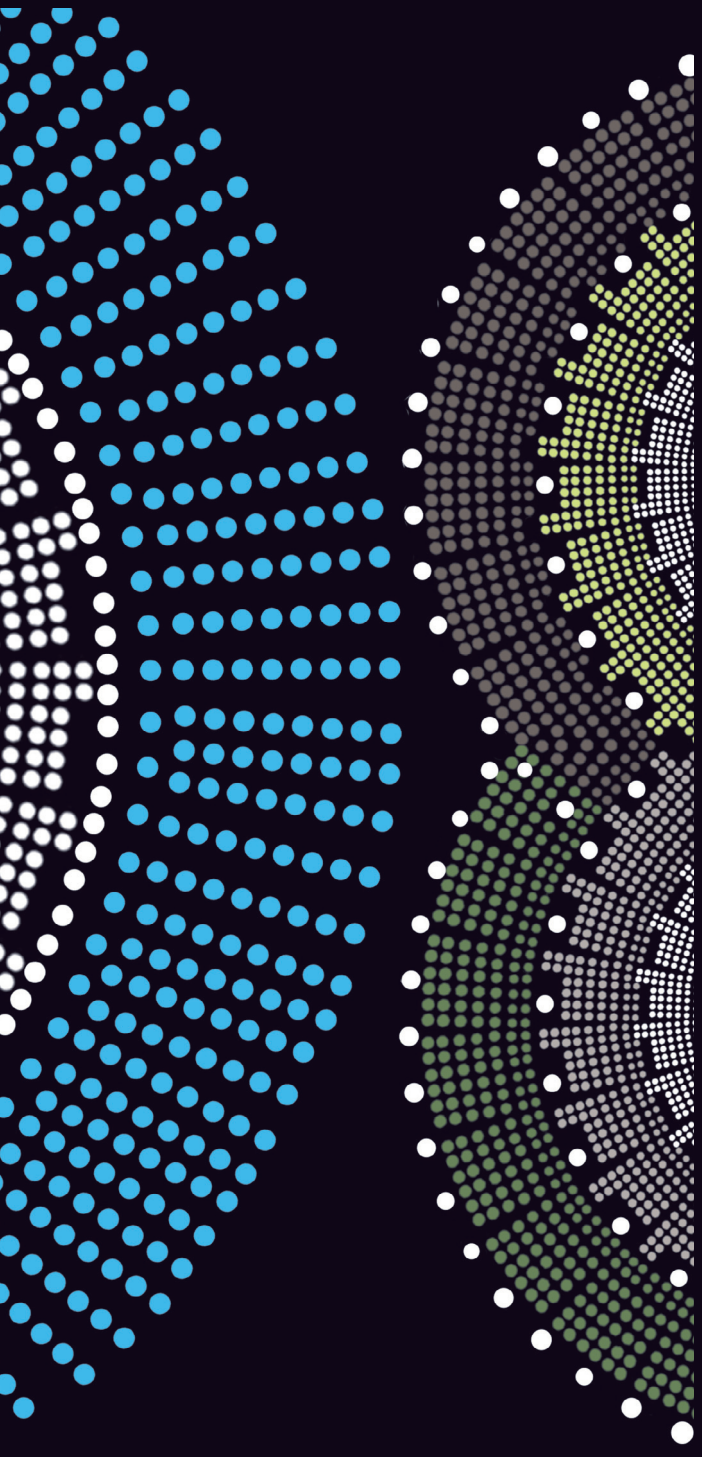

Raising the roof

This is the ninth in a series of *PF Perspectives*, produced by CIPFA and *Public Finance*. They are designed to stimulate discussion on key public finance and policy issues. These essays, by leading public sector practitioners and experts, examine the future of the audit process and its implications for the financial management and delivery of public services

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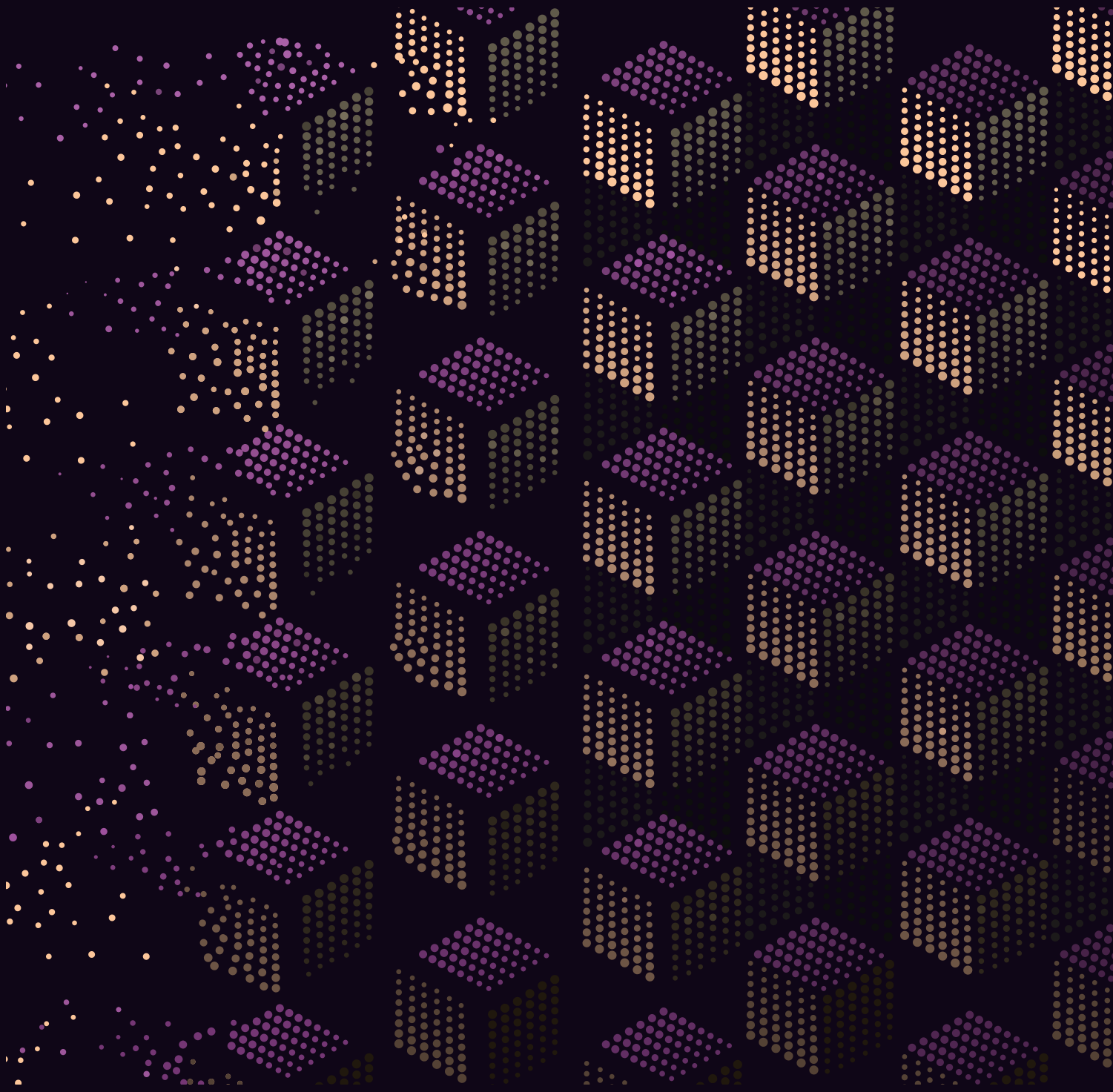
Talking about tomorrow

People and place in a new age

OCTOBER 2019



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PF Perspectives

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How best can public sector leaders respond to the political maelstrom that has engulfed the country?

It would be all too tempting in these difficult times to view debates over the role of people and place in local service delivery as something to be addressed once the turbulence is ended. Tempting, but wrong.

If anything, a re-examination of new and innovative ways to deliver local services – and empower the communities that have been so severely bruised since the 2008 financial crisis – has never been more timely. Local government is at a critical tipping point. On the one hand, it has to grapple with providing essential services in the face of unprecedented cuts and soaring demand, and avoid falling over.

On the other, it must maintain medium-term financial stability and sustainability by developing its tax base and promoting system change within the "local state".

Many councils have creatively risen to this challenge. They have re-engaged with local communities, and reinvented the service delivery rule book.

Across the public sector, new structures are emerging that break down silos and provide services in a more holistic, integrated way.

As Barry Quirk argues in this *Perspectives*, this empowering approach can potentially help unite our deeply divided nation and restore civic trust. At their best, he says, councils – with their deep roots in local place – can be in the vanguard of this process.

The less good news is that financial failures, notably in Northamptonshire, have hollowed out services to the barest minimum.

Current economic uncertainty has encouraged short-termism and –"end of austerity" pledges notwithstanding – piled yet more pressure on already stretched budgets.

The exam question then for public finance professionals is how to avoid such failure and ensure sufficient scrutiny and oversight.

This is where fresh thinking comes in. Do we, as Mike Emmerich argues here persuasively, need a radical new local government settlement in this turbulent new age? One that guarantees stable, long-term funding for our cities, towns and regions, but also looks at their challenges through a "constitutional lens".

Greater fiscal and legal autonomy for people and place has long been, rhetorically at least, on central government's agenda. Perhaps now, in the spirit of never letting a good crisis go to waste, is the right time to press that message home.

We hope this essay series adds to that discussion at this critical juncture for debate about local performance and devolution.

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THE NEW ORDER

What is local government for?

ESSAY

BY BARRY QUIRK

Councils must be at the centre of efforts to engage with local communities and restore public trust

Barry Quirk *is chief executive of Kensington and Chelsea Borough Council*

PARLIAMENT WAS IN DISARRAY. Its members were caught between fleeing from the chamber and locking themselves in committee rooms. Serious discussions were held about relocating parliament from London. The year was 1858, and the cause of the commotion was the Great Stink. In the 1850s the Thames was full of effluent and parliamentary debates were continually disturbed by the awful smell from the river. At the time, Charles Dickens described the Thames as "a deadly sewer", and by 1858, parliament's curtains were drenched in lime chloride in an attempt to drown the appalling odour.

In the 1850s some 2.7 million people lived in London. Most lived in homes that had their own cesspool. And ironically, the rapid development of sewers actually made the situation worse. The master builder Thomas Cubitt wrote that "scarcely any person thinks of making a cesspool, but it is carried off at once into the river. The Thames is now made a great cesspool instead of each person having their own." Private interest was creating public squalor. Investment in public infrastructure was desperately required; investment in new public goods for the broader common benefit.

The parliamentary response to the Great Stink, together with the discovery that cholera, which had regularly swept through London since the early 1830s, was a waterborne disease, provided the impetus for a major restructuring of local government in the capital and massive investment in sanitation and sewers projects under civil engineer Joseph Bazalgette.

Public investment was urgently needed to remedy the serious health problems generated by the blinkered pursuit of private interests. However, the 1850s challenge to clean the Thames is but nothing to the current challenge to halt and reverse the gathering global ecological crisis.

Wiser not leaner

Of course the interplay between the actions of the state and the operations of the market is not just seen in the case of London's Victorian sewers. It can be seen in the 21st-century banking and financial services sector, and in the public financing of local public services as diverse as libraries and policing. Indeed, it can be argued that the state (including the local state) is itself a public good. As the economic historian Robert Skidelsky has argued: "The community invests in the state by paying taxes. How much tax people are willing to pay is a reasonably reliable indicator of how much they think the state is worth."

Citizens pay their taxes to help local government finance and deliver an array of essential public goods that private markets do not, can not and will not provide. These goods include, in addition to building common infrastructure and delivering vital welfare services, the costs of regulating competition in private markets, as well as the costs of sponsoring cooperation in civil society.

But when we think about the future of local government it is important that we look back to the foundational roles of the state: reducing public harm and delivering public

goods. For several decades these classic purposes have been overlooked. Instead, new public management (NPM) and government-induced austerity programmes have dominated public policy in the UK. The focus has been on making government services leaner when the emphasis should be on making them wiser.

New public management emerged in the 1980s, driven by a perceived need to promote quasi-market models, commercial disciplines and the injection of private-sector practices into government services. In the UK this began with enforced competition, outsourcing and customer charters, followed by the "deliverology" of centralised performance reporting and a battery of managerial techniques. Some of these techniques improved the service user orientation and the cost-effectiveness of government services. But unwelcome and adverse consequences also occurred.

More recently, public policy has been becalmed by the widespread adoption of a model of government developed in the aftermath of the 2008-09 financial crash, focusing on how best to achieve reductions in government debt and deficits. The policy was fiscal consolidation; the result was austerity. Actions to reduce spending were driven by the assumption that government is replete with inefficiencies, waste and duplication. From this it follows that substantial reductions in costs can be achieved with only marginal impacts on effectiveness.

Of course, there are instances where the mantra 'the same or more can be achieved from less' holds true, but it is not universally so. For example, the digital transformation of services undoubtedly offers the prospect of substantial change to the cost of service delivery. But even in this area, the techno-utopianism of the early 2000s has been blunted by the costly and emerging darker side of the digital economy.

Together the twin pillars of NPM and austerity thinking have twisted our approach to public goods. We need to bend our thinking back into shape. Of course, cost reduction and productivity improvement approaches are vital in shaping the future of public goods. Doing things more cost-effectively so as to save money for the taxpayer is important. But lowering the cost of government is a means, not an end in itself. It focuses our attention more on the "how", and less on the "why". Of course we need to focus on how to make government services cost less. But an overly narrow focus on cost can be self-defeating; it can divert us from attending to the "why" of re-imagining public purposes for the new age.

Throughout the past decade there has been no attempt to provide evidence that local government is any less efficient than other parts of the public sector. Nor has there been any attempt to show that reductions in local government services generate less harm to the public at large. Nonetheless, over this period local government service spending received the largest proportionate reductions in core funding. In this area, at least, the once vaunted evidence-based approach to public policymaking was shown to be an approach to which successive governments have been only rhetorically attached.

The recent easing of fiscal consolidation (the so-called "end of austerity") is a ▶

'It is essential that the public has reliable assurance about how local bodies use and account for their money'

highly welcome turn of policy. But this is just the small beginning of a much needed change in direction. It's at moments like these that we need to return to first principles and re-examine our spending priorities. What is local government for, and how do our investments and services deliver new purposes?

A new community model

As the policy regimes of NPM and austerity begin to fade, what is to replace them in local government? The focus on resourcing our services has deflected us from our goals and ambitions as a sector. Since the 1980s the emphasis has been on the management side of local government and how it needs to improve its overall competence. And the need to improve is unlikely to lessen if the gap widens between citizens' experience of public services and their experience of privately purchased services. There will also be real pressure to examine the core functions of local government and to reinvent the style and substance of its political and community leadership. The long-run future of local government stewardship of social care (of both adults and children) is bound to be questioned, given the variety of service outcomes nationally and the critical importance of these services to the lives of our most vulnerable residents.

But it's the role of councils as vehicles for community self-governance that may receive the most attention. In its recent report, the New Local Government Network suggests a new community model for local government. It rightly argues that a transactional approach to designing and delivering services produces passive service recipients. Instead it suggests a new style of operating where councils collaborate actively with people as partners. The report is more a compass than a route map. But at least it points in the right direction, by emphasising the importance of community and the question of power.

Power is at the centre of our national political debate: who has it; who wields it; and for whom is it exercised? In our heavily centralised state we talk of devolving power. But devolving what. And what for? In local government we regularly argue for "freedom from" government strictures and controls, but we rarely say what we want the "freedom for".

In a powerful account of how change happens, international development expert Duncan Green explains that there are four paths to power:

- Power over: to dominate and subordinate others
- Power to: to mobilise resources and act autonomously
- Power with: to share and collaborate with others
- Power within: to build one's internal capabilities and confidence to act

Local government traditionally spends too much of its energies on "power over" and "power to". And this criticism applies to politicians and professionals alike. The democratic legitimacy of elected politicians is real but fragile. And the expertise to which many public service professionals cling is no longer a sign of their comparative good judgment, nor is it a source of deference towards them. That is why the next two decades must involve expanding the circle of power – of the "power with" and the "power within".

The first obvious step in expanding "power with" involves reshaping how elected members work with and alongside their communities. Representative democracy is under enormous pressure nationally. It is creaking at the seams. The rapid rise and spread of the digital information age has fractured the political reality. As media analyst Martin Gurri has argued: "People from nowhere, free of institutional entanglements, pushed the elites out of the strategic heights of the information sphere. Almost immediately, great institutions in every domain of human activity began to bleed authority. It is no surprise therefore, that a recent comprehensive review of trust shows that the public's trust and confidence in parliaments, governments and political parties is severely depressed in many countries, including the UK.

But similar challenges are faced locally. The fractured relationships between the public and local government are real and as potentially damaging as that faced by national government. Proximity is no guarantee of connectedness nor favoured status. At their best, councils curate the future of their localities for the better and focus on solving local problems in consultation with local people. This means they have to get people together and help them engage with each other in a spirit of creative dialogue and deliberation. Listening deeply and attentively to lots of

'It's at moments like these that we need to return to first principles and re-examine our spending priorities'

diverse voices tends to lead to pragmatic pluralism. That's why local government is potentially at the vanguard of reconciling the country's current divisions.

Councils in Northern Ireland are leading the way. In the context of ever changing sectarian divides they continue to seek progress in the civic realm, despite the fact that people strongly differ about what should be done. Simple invocations for unity are not enough. The arithmetic of politics may work in parliaments and council chambers; it seldom works in diverse or divided communities. That is why councils need to cultivate civility and civic responsibility. But they can only do this if civic literacy is high and civic activism is encouraged. Open-minded and open-hearted civic dialogue in localities may begin to reconcile and help resolve people's differences. Agreeing to disagree peacefully is the start of moving forward together. Leaving space for disagreement and dissent is essential, while the goal of achieving unity is probably for the birds.

The second step involves helping people and communities develop their "power within". Power is not a service transaction but a potentiality we each possess. Greta Thunberg, the young Swedish eco-activist, has enormous power, far exceeding most of that possessed by the world's environment secretaries. Of course she is not re-allocating resources in the here and now, but she is grasping our attention and reframing mindsets. Something that most leaders would dearly wish to be able to do. Structured and systems approaches to change minimise the important role of individuals and small groups in generating large-scale change. The cultural anthropologist Margaret Mead is alleged to have said: "Never doubt that a small group of thoughtful, committed citizens can change the world: indeed, it's the only thing that ever has."

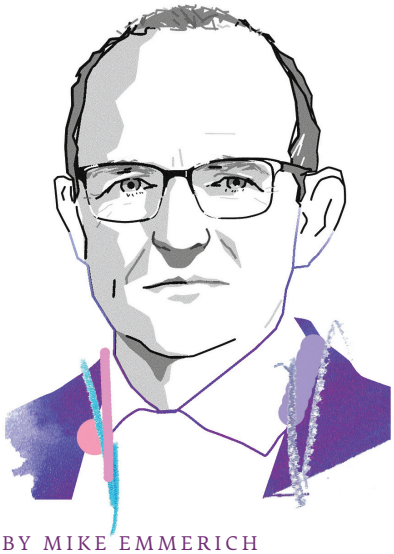
We are approaching a major point of inflection for our politics, our governments and our communities. Unlike in 1858, the disarray of our current parliament does not spring from the rising odour of the Thames but the collapsing order in our times. This collapse is driven by the digital information age, the confusions of truths, half-truths and mistruths it produces, and the peculiar mix of utopian hopes, despair and rage it encompasses. In so many ways this collapse is healthy because it reflects a more equal and expressive society. A society that leads itself and doesn't simply follow its leaders. Perhaps our parliament disagrees because we disagree. Our hope must be that our disagreements are strengthening our democratic impulse. That they are enlivening our civic dialogue and educating us about how, as citizens, we should conduct ourselves in the 21st century.

Local government is special because it is anchored in places. And places really matter to people. Places offer a sense of personal attachment, belonging and identity. They offer memories of one's past and personal journey, and offer hope for one's future. Locality is where we live, work, learn and grow. Our connection with others starts in everyday dialogue at the local level. Unless local government becomes brilliant at enabling this local dialogue and deepening our democratic practice, all of our other minor and major successes will count for nothing. ●

'We are approaching a major point of inflection for our politics, our governments and our communities'

Power to the places

ESSAY



BY MIKE EMMERICH

Our cities and regions need a new constitutional settlement. One that really addresses the local democratic deficit

Mike Emmerich *is the founding director of Metro Dynamics, and a former No 10 policy adviser*

HOW TIMES CHANGE. In early 2001, I caused a terrible row. I was a senior civil servant working in the prime minister's policy unit, headed at that time by David Miliband. Our brief was to come up with ideas to empower local government and promote city mayors, then the government's policy and a favourite of Tony Blair's. The principle of "earned autonomy" was flavour of the month back then and we floated the idea that cities with mayors should be given more powers than those without, to create an incentive to adopt the mayoral model.

The prime minister agreed with this principle, but ministers in what is now the Ministry of Housing, Communities & Local Government did not – far from it. First, they rejected the notion out of hand, and then did so at more elaborate length, bolstered by advice from their civil servants. If the words "constitutional outrage" were not used, then they were definitely implied. One could not, it was argued, give more responsibility to some leaders simply because of the means by which they came to power. The idea did not make it into the 2001 local government white paper, let alone the subsequent legislation.

Some 13 years later, the government proposed the idea of metro mayors and in 2016 the first of them were elected. With these city region mayoralties, came powers and resources not available to cities without a mayor.

Five years after that, the Supreme Court found that our prime minister had acted unlawfully in his decision to suspend parliament.

The moral? Our unwritten and infinitely flexible constitution can mean different things to people at different times. In all the cases cited above, there was a complex mix of noble intent and high politics.

Does this matter to local government? It probably does. For a start, our constitutional arrangements are flexible enough that the prime minister could abolish every council in England with a majority of one in the House of Commons should they so choose. This situation, in stark contrast to the rules in many other advanced nations, must have an impact. Government decides what councils do and don't have responsibility for, and in so doing plays a decisive role in their resource base too.

In Germany, the roles of the regions (*Länder*) and several city states are a constitutional fact. Article 30 of the German Basic Law (constitution) states: "Except as otherwise provided or permitted by this Basic Law, the exercise of state powers and the discharge of state functions is a matter for the *Länder*". Germany then is a federal state with both a central government and *Länder*, each of which have their legislative and administrative roles. Importantly these are both constitutionally derived and exercised independently.

Some argue that Germany's federal nature arises from its lack of a dominant city; Britain, by comparison, is heavily dominated by London and the South East. This raises the question as to whether our unwritten constitution, rather than countering London's economic dominance, actually serves to embed it in the fabric of the nation. I think it does.

These are issues on which we English tend not to dwell. We have a reputation as common law pragmatists and even if our economy has become skewed over recent

decades, most of us have an instinctive dislike of over-formalisation in the affairs of government. But perhaps now, with the country stuck in the middle of a Brexit process which is pushing at the boundaries of these unwritten "rules", is a good moment to pause and reflect on whether or not the status quo really works well enough to justify such a laissez faire view.

In the trenches

Some of us who have spent years in the trenches of devolution believe that the current process of decentralisation that began with the creation of the mayoral combined authorities in 2016 may need to be secured by a constitutional commitment if it is to fulfil its potential. The devolution we have so far is weak, not just politically (the mayors have few devolved powers and little leeway in their combined authorities) but economically too. The resources they have are the fiscal equivalent of homeopathic medicines, too weak to be effective.

Yet these mayoralties mark a major breakthrough. First off, they exist. There are now eight metro mayors covering over a quarter of the English population outside London. That is no small achievement. Before them, we had a string of tinkering reforms, damned as "devolution-free devolution deals" by one council leader. As we have seen over transport, homelessness and other issues, even these underpowered mayors are a force to be reckoned with.

The Labour government, which sought in 2004 to create regional government, had been divided over its importance and even its desirability (it was also in favour of mayors as discussed above and therein lay the politics). Whitehall succeeded in watering down the powers of the proposed elected North East Regional Assembly and the resulting North East England devolution referendum on its creation went against by a margin of four to one. With it went the hopes of devolution for a political generation. A conservative, Whitehall, view of devolution had won.

By contrast, a political generation on, there were no referenda for the metro mayors. They were voluntarily entered into by some places and not others. But of the relatively few powers and budgets devolved to them by what is now the Department of Business, Energy & Industrial Strategy, most had been abolished in the period between announcement and implementation. This always struck me as cynical, all the more so as I've watched HS2, Brexit and all the other contortions of our state. Central government has all the power and still finds it hard to chart an effective way to use it consistently.

Perhaps the most remarkable thing about devolution in that period is the fact that the decisive leadership came, not from the cities, but from the then chancellor, George Osborne. He and his team pushed the agenda and overcame the resistance of government departments to make it happen. The problem is that two years after starting the process, he left government and none of his successors has had the appetite or power to continue what he started. ▶

'The resources they have are the fiscal equivalent of homeopathic medicines, too weak to be effective'

Work in progress

Devolution is a work in progress and needs completing. That is not to say that everywhere should have exactly the same model; it is worth sacrificing uniformity for effectiveness up to a point. But it would help all concerned if the government had a plan and stuck to it. That doesn't mean the recreation of a 1972-style blueprint. There is nothing wrong with devolution deals, but they need to be pursued with real intent. The best way to do that might be, for the first time, to set government, our cities and towns, and the mayoralties that serve them, a meaningful but achievable goal; perhaps the one spoken of recently by the prime minister, of levelling up growth, over the medium term. That, after all, is why we are having this debate in the first place.

Devolution so far is a story of initiative, personal whim and fudge rather than strong governance. There is a great deal of clear blue water between this and the dirigisme of Francois Mitterrand's grand regionalisation in France. We may or may not benefit from that approach. But we need to do something. The status quo isn't working, and needs to change to give our cities and regions the power and access to the resources needed to grow and tackle their social problems.

We could, and should, consider a quasi-constitutional role for city regions and counties. If not, the government and local places need to start being even bolder with their policy proposals to show they are serious about this.

There is another, equally important, debate we need to have, about the role of local government as an anchor institution. Our economic focus on mayoralties based on natural economic geographies is at least as reasonable as successive governments' amalgamations of local authorities, and the creation of larger and more efficient unitary local authorities. But what if, in the process of creating larger unitary councils, we unwittingly undermine the institutional strength of places and the power of local leadership in towns and cities?

Recent research by German academics on the fiscal and political implications of amalgamating larger local authorities in Germany and Austria found that reorganisation didn't reduce costs or staff numbers. They did find that voter turnout in these places fell consistently and support for rightwing populists increased. The evidence on the cost savings of amalgamation in England may be more robust, but the democratic and political considerations involved have never featured much in our debate.

We certainly could have given more serious thought to the howls of indignation – and indeed to the quiet acquiescence – as town halls closed in many towns and parts of cities. It may just be that we have inadvertently weakened the link between people and government. If so, it's another reason for looking at local government through a more constitutional lens.

One solution to the sense of local disempowerment, and an essential part of the devolution process, is the delegation of powers. We haven't heard enough about the famous "licensed exceptions", whether through city deals or mayoral combined authorities, promised by Greg Clark when he was cities minister. That's because the government hasn't let it happen.

Finally there is the issue of money. Devolved city regions don't have their own adequate financial base and need to bid for too much of what they do have. The councils that make up a mayoral combined authority have a financial system that is underpowered and increasingly unfit for purpose too. So more stable and long-term funding is needed to enable councils and combined authorities to do their jobs.

And, as I have argued to everyone who has worked on local government finance in central government since the distant days when I did, we will not adequately reform local government finance through the machinery of government. It is too big an issue and needs a cross-party process to deliver a consensus. We need a 21st-century, fit for purpose, royal commission on sub-national funding.

If we get all that right, which is no mean feat, we'll have moved on from the game where we are too focused on the boundaries of power and not enough on what to do with it. Perhaps the real victim of our constitutional system is that the rituals of the relationship rather than its purpose have dominated.

If the government can bring itself to extend a constitutionally secure position to councils, combined authorities (and their local enterprise partnerships), giving them real responsibility, then we'll have moved on. If places really use those powers to address the big economic and social issues they face, we'll have cities and regions up to the job of tackling the serious challenge of levelling up growth and inclusion in our country. ●

'We could, and should, consider a quasi-constitutional role for city regions and counties'

LOCALISM REINVENTED

Mindset over matter

ESSAY

BY DONNA HALL

A new paradigm is needed for the successful delivery of public services. One that puts local communities firmly in the driving seat

***Professor Donna Hall**, CBE, is chair of the New Local Government Network and of Bolton NHS foundation trust*

DIRECTORS OF FINANCE and chief officers working in the public sector, along with policymakers and practitioners all over the UK, are struggling to cope with a rising tide of demand alongside reduced real-term budgets. Meanwhile, a quiet revolution is taking place.

This shift in mindset has become more urgent as councils, police, schools, the NHS and housing associations realise that they can't go on cutting without investing in real change. This means building strong, happy, healthy and socially connected communities, and believing in their ability to take decisions that improve their own lives and those of their neighbours.

In Wigan, where I used to be chief executive, we tested out this approach eight years ago, by creating a new social contract between citizen and state. Rather than initiating yet another silo project, we tied together existing projects and programmes into an overarching, simple and compelling partnership with residents – the Wigan Deal.

In 2011, we faced the prospect of £160m being stripped from the council's budget: according to the Institute for Fiscal Studies, the third worst cuts of any UK council. We knew that the status quo wasn't an option. But rather than simply cut frontline services and put up council tax every year, we decided to freeze it for seven years – our side of the Deal.

Council tax is a big proportion of people's monthly income, and freezing it in return for residents doing more recycling, taking better care of their own health and the local environment, and looking out for their neighbours resonated with them. Satisfaction with the council shot up by 59%, despite the fact that we had lost over half of our resources.

An asset-based approach lay at the heart of the Deal and we used a renowned anthropologist to help us design the framework. Put simply, it was based on the same overarching "mindset" principles as the government's Troubled Families Programme. It helped us join the dots around people and place, and cut through the complex proliferation of initiatives and departmental solutions, whether originating from councils or Whitehall departments.

This new approach involved working human to human – not state official to failed "unit of need". We decided we needed a different conversation, one that meant us asking, what are you good at? What does a good day look like for you – and how can I help make that happen every day? What's going on in your local neighbourhood that you would like to be a part of?

It involved appointing key workers to build strong relationships based on trust, whose job it is to help people navigate the complexity of public services. And integrated place-based teams to share information and target support to those who need it most. Their role is not to judge, but to see the best in people, no matter what.

People not processes

We decided to stop spending all our staff time and money on processing people; passing them around a system where we keep assessing them, and then referring them on to another agency to deal with only part of their problems.

The social activist Hilary Cottam, in her analysis of public policy, *Radical Help*, calls for a reinvention of the welfare state. She provides practical examples of the waste that we all have in our systems. The duplication and pointless bureaucracy. The lack of timeliness. The confusion. The absence of a person-centred approach.

We need to trust public servants to work with people, not just to do things to them. Local leaders need to make it all right to test new approaches in integrated place-based teams, and invest more in local community grassroots organisations. This, and not cutting community and voluntary groups, is what will really help people and reduce public demand for expensive, ineffective and clunky state solutions.

We also need to listen really hard to families and communities, and trust that they will make the right decisions about their own lives with the right support. And be courageous enough to stop doing – and shut down if necessary – the things that don't work, and strip away pointless layers of management.

This in turn frees up frontline teams to self-organise, for example, along the lines of the Dutch-based *Buurtzorg* model of neighbourhood care: a system that is gaining traction globally as a way of helping people live independently with much less formal support.

Commissioning alongside communities or, even better, passing the role over to them, is increasingly recognised as the way to go.

The New Local Government Network (NLGN) has produced some practical material on community commissioning, which recommends investing early on in building grassroots community support infrastructure, social connections and relationships with families. *From Tiny Acorns*, published by NLGN in September 2019, shows how applying this model to children's services is a lot less expensive and more effective than taking children into care.

An estimated 80% of our collective public sector resources are spent on processing people: assessing their needs, evaluating how much of a fix they should get through various differential thresholds for social care, and finally referring them on to somebody else who can help. With input from Cottam, we turned that on its head and instead spent 80% of our precious staff time on working intensively to help support families be the best they could – and just 20% of our time on the necessary underpinning processes.

A striking example of how this can work involved a woman and her children on a council estate in Wigan. They had been passed around repeatedly by the criminal justice system, with over 20 interventions in five years. She was spinning on the centrifugal spot of a fragmented system. Her life and that of her three children was going backwards, while she was "costing us" £250,000 per year in multi-agency staff to pay for her and her family to spiral downwards. By having a different conversation and finding ways to build on her and her family's assets and capabilities, the council has helped turn her life around. She now has a job, her children are back at school and out of care, and the mental health of the family is getting stronger by the day.

This approach has been spread out across Greater Manchester and is now embodied in the work of 10 councils. Their shared approach to troubled families work has been ▶

'We need to trust public servants to work with people, not just to do things to them'

encapsulated in mayor of Greater Manchester Andy Burnham's public service reform white paper – a localised manifesto with the Troubled Families mindset at its heart. Its philosophy is that everyone is valued, everyone is special, everyone is unique.

An asset-based mindset is increasingly "on trend" in certain circles. But the key thing for public service leaders, both political and managerial, is how to systematise this approach. It's not just another initiative, another project, pilot or pathfinder, with its own dedicated monitoring and project team, and Prince Two evaluation regime. It has to be simply the way we work; something embedded in our DNA.

'It has to be simply the way we work; something embedded in our DNA'

A different relationship

As chair of the NLGN, I've been helping to broadcast the think-tank's exciting new community paradigm concept. A recent report on the issue set out the need for a radically different relationship with communities, one that rejects the hierarchical and transactional mindsets of traditional public service models. These are no longer sufficient to meet the tidal wave of demand from residents, particularly in the context of a declining resource base.

The community paradigm approach fosters collaboration between the public servant and the citizen, sharing power and resources more directly with people, to embed prevention and ensure future sustainability. It builds on the philosophy of asset-based working and takes it to the heart of all public policymaking for the future.

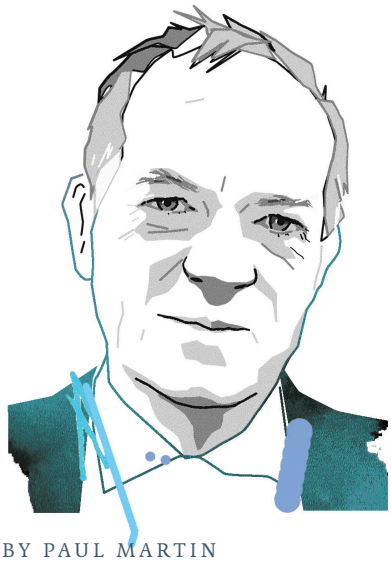
Shifting power and resources away from separately governed institutions, such as the NHS, local government and the police, and towards communities is an exciting legacy of the Troubled Families programme. It is a way to address the fundamental issue of unequal power relationships and discourage "learned helplessness".

But we need to transform this from a mindset adopted by just a few organisations into one that all public services operate as a default setting. We need many more examples such as Bolton NHS foundation trust, which aims to be the first community paradigm health trust in the UK, working with police, council and voluntary partners in Bolton to empower the community.

Our staff became public servants because they genuinely wanted to help people and improve communities, not just fill out forms and get through inspections. So let's embrace the community paradigm, cooperative councils and a million and one other separate deals and initiatives, and systematise them into something that we do every day. Because it works. ●

Vehicles for change

ESSAY



BY PAUL MARTIN

Councils can be powerful promoters of local economic development and social mobility. Here's how

Paul Martin *is chief executive at the London boroughs of Wandsworth and Richmond upon Thames*

THERE ARE A NUMBER of compelling arguments why government policy should be reframed to give greater support to local authorities to carry out their wide range of essential statutory services.

First, local government is more efficient and achieves greater value for money than any alternative method of service delivery. Second, is its proven track record for experimentation and innovation. Third, is the capacity for councils up and down the country to act as an engine for change and encourage social mobility.

The joint report published by the Sutton Trust and the Social Mobility Commission, *Elitist Britain 2019*, draws attention to the over-representation of privately educated individuals in prominent positions in British society, including 59% of civil service permanent secretaries. The report concluded that this general picture can be seen throughout the upper echelons of the state.

However, there is one exception.

The report found that "only 9% of local council chief executives attended an independent school, broadly equivalent to the percentage who have done so in the country's population overall and one of the lowest rates in this report".

This will come as no surprise to those of us who have spent our working lives in local government. Councils are places where individuals who have varying levels of academic achievement work together at all levels of seniority. In my 37 years in local government, working for eight local authorities in the East Midlands, East Anglia, Greater Manchester and London, I have never once known a decision about a staff appointment to be made on the basis of attendance or educational attainment at the "right" school, college or university.

This is not as a consequence of conscious policymaking on the part of councils, or the adoption of targets or quotas. The identification of local government as the least elite component of our public sector apparatus is all the more remarkable because it is not an outcome that derives from an adopted strategy or direction.

It is more powerful than this. Meritocracy in local government is deeply cultural and embedded, and is a function of the basic characteristics of municipalities. They are practical entities that prize competency in implementation above all other things.

When it comes to staff appointments, including at the most senior levels, the capacity to get things done will nearly always take precedence over other factors, and certainly over paper qualifications and the social backgrounds that they typically reflect. (This is similarly true in the political process. The last prime minister not to have a university degree was John Major, who left school at 16 with three O-levels. It is no coincidence that his first taste of public life was as a Lambeth councillor and chair of the housing committee.)

Risks and brakes

This special and unique quality of local government is of particular interest to the UK as we prepare for the challenges ahead. Policymakers need to think deeply about how to address three long-term systemic risks and brakes on our success.

First is social mobility and the extent to which an individual's life chances are ▶

determined by their social background. This injustice is manifested in many particular forms, notably in terms of the lack of opportunity for people from BAME communities.

Second is our country's economic productivity, which, while never distinguished, has deteriorated in recent years at an alarming rate. This is mainly because of the performance of local and regional economies outside London and the South East – a root cause of the lack of affordable housing, especially in the capital.

And third is the climate change emergency, at last recognised as requiring a transformation in our approach to the design and implementation of policy.

From the perspective of national government, steep reductions in grants to local authorities since 2010 have proven to be an expedient means of reducing public spending. From the perspective of local government, they have inevitably become a preoccupation, if not obsession, of councillors. However, austerity notwithstanding, it is becoming clear a decade on that, to address these three challenges, a different approach is needed. Not just in terms of policy direction, but in language and tone too. The reframing of policy that we seek must be based on a sound analysis of the challenges that we face as a country, and a realistic assessment of the contribution councils can make to tackling them.

Councils are generally practical and durable entities that can expand rapidly to deliver national government programmes – for example, during the period from 1997 onwards – and can deflate rapidly to address the requirements of austerity, as in the period from 2010. (Even though, at its most bleak, our apparently powerless relationship to central government has come to resemble, in Gloucester's words in *King Lear*: "As flies to wanton boys are we to the gods; they kill us for their sport.")

Following a national conversation of nearly four years, which has focused on what for most people are abstruse and obscure arguments about Brexit (Northern Ireland backstop, anyone?), a huge pent-up demand exists to address goals that are actually relevant to people's lives.

How can the fortunes of our areas be improved to achieve an attractive quality of life, and fulfil people's aspirations? How can we generate local wealth to fund excellent public services? And how does local government develop the means to do these things?

Although Office for National Statistics figures show that the number of people employed in the public sector as a whole is similar to the 1970s and 1980s, the number working in local government has fallen dramatically. The vast majority of job losses in the public sector since 2009 have been in local government. Council employee numbers have fallen by 406,000 over the past five years, while the civil service has increased by a similar figure and is at its highest level since records began in 1999.

While we have debated localism, the trend – relentlessly and consistently – has been in the opposite direction. Follow the money, and follow the headcount. We have been talking an ambitious talk of localism and walking the dreary walk of nationalisation.

Sir Michael Lyons' 2004 review proposing the localisation of 20,000 Whitehall jobs remains an inspiration – as does his 2004/2007 review of the form, function and funding of local government. In the 15 years since, we have discovered the full extent of disenchantment with remote decision-making, together with changes most evident in

'Meritocracy in local government is deeply cultural and embedded, and is a function of the basic characteristics of municipalities'

the retail sector that have led to deteriorating town centres and diminishing prospects for high-quality jobs and opportunities.

We have also discovered the full extent of the climate emergency, which has provided the impetus to reorientate policy to provide local opportunities for work and leisure that are not dependent upon long-distance commuting.

Grounded in reality

Councils are the most plausible institutions to advance optimistic, aspirational policies – especially as our daily work grounds us in the practical realities of local services and communities. Councils can provide the political, high-profile articulation of this goal and correlate it locally to specific circumstances and realities. Many already run highly successful, in-house employment programmes – for example, Wandsworth's Work Match service that links jobseekers to local employers – and are able to extend this vision into the daily work of the council. We work closely with schools and colleges, employers, housebuilders and economic partnerships to this end.

It is also instructive to study the most recent reforms of the NHS, which reframe the health service away from a preoccupation with individual institutions towards an examination of the health and social care system as a whole. These aim to strengthen the governance of the wider system and ensure that individual institutions are actors that play their part within this framework. This is not so far from the "place-based" thinking that developed in the years after Sir Michael Lyons' reviews.

We need to do three things.

First, we must make the case for social mobility and tackling regional economic imbalance being at the centre of the government's programme. We need to show how opportunities to learn, develop and excel within a locality can support climate change strategies by reducing the need for long-distance commuting, especially to London.

Second, we must show that municipal government is an attractive and compelling apparatus through which to deliver these ambitions – in areas such as economic development, skills, schools and further education.

And third we need to act upon the ambition of the first chief executive of the Local Government Association, Sir Brian Briscoe, who described his new organisation as being "the place where future local government legislation is written".

That's now a task for us all. ●

'A huge pent-up demand exists to address goals that are actually relevant to people's lives'

Joining the dots

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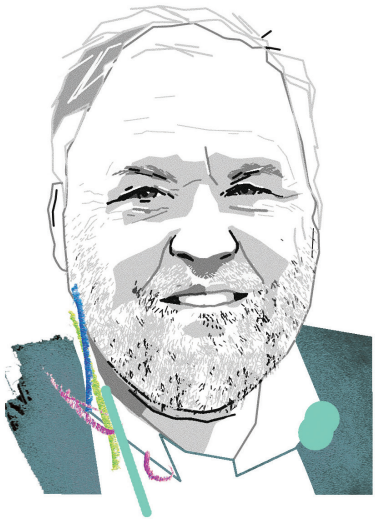

BY JOE SIMPSON

To push the politics of place up the government's agenda, finance leaders need to work across the wider public sector. And get the messaging right

Joe Simpson *is director of the Leadership Centre and principal strategic adviser to the Local Government Association*

TEN YEARS AGO saw the launch of the Total Place programme. It was a "whole area" approach to delivering better public services at less cost. It tried to make a step change in service improvement and efficiency at the local level, as well as across Whitehall.

It was not perfect – I should know, we at the Leadership Centre were its instigators. It originated in more expansionary times and was caught in the crossfire of austerity. At its heart was the premise that money earmarked for a community or area needs to be spent in a way that maximises the outcome for the people who live and work there. To put it in financial jargon, Total Place put as much emphasis on allocative efficiencies as on technical efficiencies.

Total Place left an impact, not least through the Greater Manchester devolution deals: even at the height of the austerity programme, public expenditure in Greater Manchester did not go down – total expenditure remained the same, but the pattern of spend changed. The programme was about balancing the books through a demand-reduction approach to finance – an economic argument that resonated with government and resulted in GM getting more power.

Today, we need to refocus and think more systemically. Place needs to become our basic building block. The Local Government Association has always stepped back from discussions about place allocation because different member authorities have different interests. As a consequence, the LGA articulates the need for more funding for specific services. But in that beauty parade of needy causes, it's the nextdoor neighbour (typically, health) who always wins.

We need to be bolder. Of course, different places will argue they are badly treated. Living in Hackney, I can give you a passionate and robust argument about the particular needs of diverse poor urban communities. If I lived in Cornwall, no doubt I would be equally passionate about the needs of low-density, dispersed rural communities. One thing I do know, however, is that,, to be effective, the configuration of services needed is different in Hackney than it is in Helston.

What we need are medium-term financial strategies for places. We know that health services account for only 20% of health outcomes, but, despite this, demands on A&E are increasing. The fistfight between local government and health about social care is a distraction. The long-term challenge is that life expectancy has been growing much faster than healthy life expectancy. Moving to a more systemic approach allows us to think about how we get those two lines to track one another.

If local government is going to move into this place, there needs to be honesty when authorities find themselves in financial peril. To position itself as an honest broker in discussions around place, local government cannot afford another Northamptonshire. But equally we cannot wait for permission to act. Given the Brexit bottleneck in parliament, anyone expecting decisive government action may have to wait a while. One of our slogans in the Total Place era was "proceed until apprehended". So let's get going.

Window of opportunity

CIPFA is well placed to help us do this. Its membership straddles both health and local government. Health is not the sole area that needs to be addressed – the next iteration of the Work Programme is pretty important too – but health spend is so significant that place budgets are meaningless without them.

And we have this window of opportunity. As sustainability and transformation partnerships and integrated personal commissioning are implemented, place is now, at least, in the health lexicon. Local government purists might say the commitment is shallow, but if you miss one configuration of the stars, you can wait a long time for the next.

There are two things standing in the way of pushing place up the agenda. One is the lack of coordination between the people leading the finance function in local government and the rest of the sector. The other is the debate – or lack of it – coming out of local government.

In any discussion between senior local government figures, the conversation will inevitably turn to finances. The fortunate ones will say next year's budget position is OK; the less fortunate will detail exactly how many millions of savings they have yet to identify. The chancellor's July announcement may have afforded some breathing space, but no one is under any illusions about the challenges ahead. Of course, local government needs more money, but I want to reflect on a curious fact.

Public sector leaders and chief executives are now meeting up more regularly than ever. If you were the lead member for adult or children's services, for example, you could attend a different conference every day (culminating in the national children and adults conference), each describing how services could or should be improved. There is, however, one group that stays at home – the lead members for finance. It's not just that they don't meet each other; they don't meet other finance and resource directors either. And, as those of us who have been to the (excellent) CIPFA annual conferences know, these are pretty much member-free occasions.

We urgently need to correct this. Of course, the sheer pressure on budgets has forced local authorities to focus internally on making cuts, often in-year, and concentrating purely on the short term. Now, more than ever, we need to have a dialogue about medium-term financial strategies, one that involves members and officers from all disciplines learning from each other. A constant feature of an authority that has hit the buffers in some service areas is that it has become so inwardly focused that senior figures don't circulate. This paucity of discussion on financial strategy makes it harder to notice who is missing. My challenge to CIPFA is to extend out to elected members and find ways to evolve forums for this dialogue.

This brings me to the issue of the messaging coming out of local government in response to the financial challenge. The political consultant Frank Luntz – a key figure in US Republican strategy in the 1990s, and who led focus groups in the 2010 UK general election – has plenty to say about this. Luntz's central message is this: it's not what you say, it's what people hear that matters. ▶

'There needs to be honesty when authorities find themselves in financial peril'

Of course, if you read the local government responses to government, they are detailed, nuanced and robust. But if we stand back and ask what was heard, two messages above all stood out.

Crying wolf

First, we were seen to have embraced the Oliver Twist method of negotiation: "Please sir, can I have some more?" The trouble with that was that our nextdoor neighbour, the NHS, looked even more deserving than we did, and if any more goodies were to be handed out, they always got them. The cumulative effect of a decade of this is dramatic. Go back to 2008, and local government and health were in the same spending league. Look forward to 2022, and health is predicted to account for 38% of all public expenditure.

Second, local government was perceived to be continually crying wolf. Disaster was always just around the corner. The irony of course is that disaster was avoided only because of the ingenuity of local government. The efficiencies that local government have delivered are phenomenal. If the rest of the public sector had achieved even half of what local government has done, there would be a significant amount of money available for new public services.

However, these achievements have been drowned out by negative messaging. For the politics of place to get a serious hearing, we need to try a different, more positive and forward-looking tack. One that pushes the advantages of integration and collaboration, and a place-based agenda.

Some say local government should shout louder – a bit like the classic "Brit abroad" strategy for dealing with locals who cannot understand what we are saying.

Fortunately, local government does not need to learn a new language. What it does need is a new message. ●

'It's not what you say, it's what people hear that matters'

COUNCILS UNDER SCRUTINY

What failure looks like

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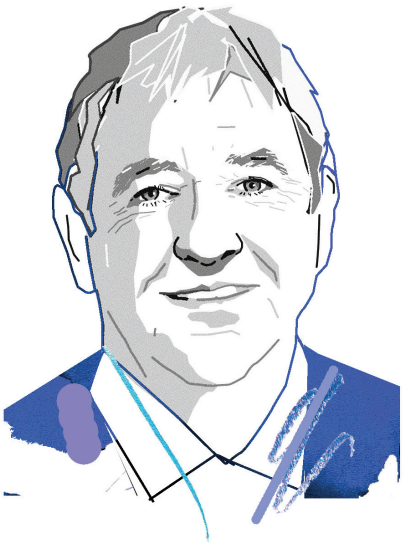

BY TONY McARDLE

Northamptonshire Council's financial collapse wasn't inevitable. It ran out of money because it failed at the fundamentals

Tony McArdle *is the lead commissioner at Northamptonshire County Council*

FOR ALMOST A DECADE now, the trade press and, on occasion, the national media, have carried earnest and learned commentaries from many an expert, gloomily pronouncing on the sector's impecunious arrival at the edge of the cliff – predicting the impending collapse of perhaps 50 local authorities in the foreseeable future.

We have spent a long time on that cliff edge. So far, only one authority has gone over – Northamptonshire. It did so kicking and screaming, protesting at the unfairness of the system and lamenting the fact that, although it had done everything right, it had been cruelly abandoned.

Eighteen months on and government intervention has been seen as successfully initiating a process of repair, Northamptonshire exposed as having, in fact, done very little right, and rather than being cruelly abandoned, given every chance – which it obstinately refused to take.

Indeed, the council proved to be not the victim of some ghastly set of circumstances inflicted upon it, but rather the first local authority in the land to bring itself down through a series of catastrophic failings of its own.

Even at the end it didn't recognise the reality of the circumstances it had created for itself: insolvency; diminished, often dangerous services; the distrust of partner agencies; the despair of the local voluntary sector; the sense among staff that their professionalism, dedication and effort was being traduced and betrayed; the total opposition of the county's MPs and district councils; and the ridicule of the local press.

Every council in the land falls out with some of these interests, some of the time. Here, however, was total desertion.

For a council that had once charmed the sector with its visionary aspirations, the end, when it came, had aspects of the hallucinatory.

The council quite genuinely believed that it had balanced its books and begun a new year with £8m to spare. It did think that the year ahead might conceivably prove tricky, but had, in reality, failed to work out that it was already over £40m in the red and was engaged in running up a further £30m that it couldn't cover. It didn't make a conscious choice to operate while insolvent, it was just that its operating methods had become so chaotic that it simply didn't know that it was doing so. Northamptonshire didn't fail because it ran out of money. It ran out of money because it failed.

It all started with a problem that quite a few will recognise. In 2013, an "inadequate" Ofsted judgment concerning Northamptonshire's children services generated a surge in activity to rectify the situation. However, instead of taking a focused approach, a series of very expensive, drawn-out and frequently odd decisions saw the council's reserves drained and the funds and operational base of many of its other services sacrificed, all to no avail. All of this was played out in public, marked by inspection reports, audit letters and media investigations.

The council had a story to tell in the face of these difficulties. It essentially focused on how badly off the council fared from the national funding formula; how much it had tried to keep council tax down in line with the government's wishes; how little it

received in order to handle the growth and scale of demographic change which the county saw; how visionary it had been in setting out a brave new model of operation; how bold it was to create a state-of-the-art operating base from which to deliver quality services; and how much time it needed to prove itself.

These arguments had an element of truth about them. Northamptonshire did fare badly under the funding formula – although others fared worse. It had a low council tax – although others had lower. And it was trying new, bold approaches – although so were others, with better risk management. The fact remains, however, that while the council was promoting and pursuing these brave new world policies, reserves were running down, services were shrinking, staff were leaving, performance was declining and time was running out.

‘The council proved to be not the victim of some ghastly set of circumstances inflicted upon it’

Checks and balances

At some point during the five years leading up to the council’s collapse, the checks and balances that leaders and managers across local government use all the time would have been expected to kick in. The inspection and audit reports, the scrutiny from the media and political opponents – even political friends – should have at least moderated the approaches taken by the council. The mechanisms, formal and informal, in which members and officers engage with, support and challenge one another should have brought a degree of reflection, and a much-needed reality check.

Instead, the collective response was to circle the wagons and defend the cause. It must have been really difficult for anyone to be on the wrong side of that cause. No one wants to be the one to tell the emperor that he has no clothes.

Many things could have happened, and should have happened, to prevent this collapse, wholly preventable as it was, but they did not. None are exotic or unusual. In his report that precipitated the intervention, government inspector Max Caller lamented the fact that the council had lost the ability to “do the boring well”. Leaders and managers need to:

- Hold people to account for the things they commit to doing. Savings targets were high on that list. If a service consistently falls well short in this area, do something to remedy the situation from the outset. In each of the three financial years prior to intervention, Northamptonshire failed to hit even half the savings targets it set itself. Unless an underlying inability to robustly set and deliver budgets is tackled, a council is doomed. It is only a matter of time.
- Invite challenge. It is healthy, it improves decision-making and builds inclusive ownership of difficult decisions. If you perceive it as a threat, ask yourself why. In Northamptonshire, challenge was not welcome.
- Be careful not to instigate projects or programmes to achieve transformation or improvement and then assume you have discharged your responsibility. These things are difficult and will wander off point if they are not closely monitored and ▶

managed. They don't come free or cheap either. Be prepared to make the investment, but only on the basis that you are convinced you will achieve the return. Business plans need to be real and deliverable, not written simply to satisfy a perceived need to do so.

- Prioritise. If your crisis is in one area, don't allow whizzy and exciting things elsewhere to become the focus of attention. Don't fall for the seductive distraction of something interesting that may save the pennies in favour of something boring that will save millions. The Next Generation model that saw Northamptonshire float off all its services into a range of different operating vehicles, while retaining a minimum core client staff, had to be unwound, as it quickly became part of the problem while offering no real part of its solution.
- Recognise that the crisis heads the agenda until it is resolved. Senior managers must support members to keep their attention fixed on the things that are not always interesting... and members must be able to hold senior managers to account for progress.
- Not let the fundamentals fade away. Your corporate plan, medium-term financial plan, capital programme, transformation plan, workforce strategy – whatever you call these things – is your cornerstone. Once it's allowed to crumble, you have lost the fundamentals upon which to build.

There should not be another Northamptonshire. The fact that it happened shamed the sector. But the real losers are the residents of the county who, for years to come, will pay for the resolution of problems that need not have arisen and the recovery of opportunities that need not have been lost. For the wider world of local government, the best that can happen is that the lessons are learned. ●

'The collective response was to circle the wagons and defend the cause'

Many things could have happened, and should have happened, to prevent this collapse, wholly preventable as it was

Doing data differently

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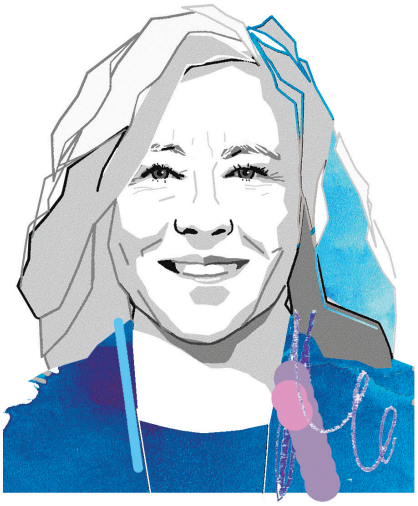

BY JOANNA KILLIAN

Local authorities must raise their information game, to improve insight and better read the future for the benefit of local residents

Joanna Killian *is chief executive of Surrey County Council*

THE PROBLEM FACING too many public sector organisations is not that they don't have enough information. It's that the information they have often turns out to be thoroughly useless.

This may be slightly harsh, but it illustrates the point that raising an organisation's information game is about more than quantity and a one-size-fits-all approach. It's about ensuring quality and specificity – a much harder task.

Surrey County Council is, of course, no different in this respect. Earlier this year, we asked our insight and intelligence community about what they saw as the biggest barrier to the effective use of data. A lack of data was relatively low on the list, at just 6% of respondents, with the biggest obstacles surrounding the quality of data. Nearly a third of those surveyed cited the difficulty in matching information across information silos, and 19% bemoaned the generally poor quality of data.

To take these findings a step further, we asked what was the biggest barrier to turning insight into tangible action. The answers included a lack of leadership (24%), insufficient trust in the data (14%), or not having the skills to interpret and apply findings (14%). But for 33%, the biggest barrier put forward was a reluctance to change processes or practices.

Worthwhile information-gathering and analysis is not necessarily then about increasing data in itself. It is about taking a structural approach and acknowledging that big changes are needed, that a number of old processes need to be consigned to history – and that innovation is paramount.

Councils are generally using data and information to better understand the communities they work with, and develop predictive models that allow for improved support. This means completely transforming the council's approach and culture, and to put residents' needs first.

At Surrey County Council, there are a number of big, and not so big, steps being taken to pursue a preventative, demand management, participatory agenda. These are designed to enhance our understanding of the people that live and work in the county, and put them at the heart of all decision-making.

With the right information, therefore, we can make intelligent decisions about the design of services and the best use of resources. We can move into a position where we use data, technology and analytics to help us plan, predict and prevent in collaboration with partners.

People focus

It is only by taking such an approach that we can ensure we continue to focus on outcomes for residents that reflect their changing needs, hopes and expectations.

Data projects should be, at their very core, people-focused. They need to be framed around, for instance, helping frontline staff in their work, providing intelligence and analysis to senior management, or shaping the services that residents rely upon. So it is crucial that these people are involved in the development of these projects.

A tactic that has given us considerable success so far has been the use of "hackathons",

where analysts and decision-makers from across a service ecosystem work together to co-produce new data visualisations. This includes an opportunity to test out risk factors and identify indicators that support the building of a preventative model.

Surrey Heartlands Integrated Care Partnership, in which local health organisations and the council work together with residents and patients to improve services, utilised this approach to involve multiple partners from the integrated care system (ICS).

Funded by the Health Foundation's Advancing Applied Analytics programme, the team ran three hackathons, which were able to identify intelligence to answer specific questions, create a clear data product and produce a defined action. Key to their success was the time spent with decision-makers, refining the questions to be answered and making sure the answers could inform ways of doing things differently.

This joint approach also meant that decision-makers were able to offer reasons for data variations, allowing for more detailed insight, while multiple perspectives from across the organisations added value to the work being produced. These interactions helped us tailor visualisations in ways that ensured that the data was useful to make decisions.

The hackathons have proven useful at facilitating the development of a network of analysts across organisations. Such opportunities will continue to aid this network, as will a shared style of working that is increasingly becoming business as usual, rather than being treated as a one-off special case.

Building on this success, the knowledge management strategy for Surrey Heartlands ICS has involved establishing a Surrey Office of Data Analytics (SODA), a virtual system-wide intelligence network that delivers joint intelligence and gathers the evidence needed to transform how care is delivered.

This use of data means Surrey Heartlands has been better able to predict demand and plan accordingly. The outcomes include: a significant reduction in delayed transfers of care from hospital; a preventative project for identifying atrial fibrillation and reducing the risk of atrial fibrillation-related strokes; and a reduction in GP referrals to outpatients across one clinical commissioning group, with the introduction of an "advice and guidance" telephone service for GPs.

Silos are one of the clearest signs of an inefficient and ineffective organisation. It leads to duplication and territorialism across teams, means that vital information is not shared and reduces dramatically the prospect of successful joined-up outcomes for residents. A similar problem exists when considering whole organisations working in isolation rather than collaborating with like-minded partners.

In some ways, as with many other local authorities, we are very much in the early stages of our silo-breaking work. Take, for instance, our moves, along with partners, towards using predictive analytics to further tackle domestic abuse. We had already identified it as a sizable, often unreported local issue, with a significant rate of repeat victimisation and high risk of serious harm. The information we had was reactive, looking at the current situation and not providing sufficient detailed insight. ▶

'The biggest barrier put forward was a reluctance to change processes or practices'

Active approach

We have started to move from this "what happened?" approach to one that asks: "Why is this happening, and what will happen next?" This more active approach is designed to provide insight, influencing early intervention and guiding positive action. By understanding how domestic abuse develops and escalates, we can begin to understand more about who may be at risk, helping us predict and prevent incidents of domestic abuse before they happen.

It is, to use one example, possible to identify common characteristics among victims of abuse, such as social isolation, substance misuse, or age, and then run the model against available datasets to identify potential victims who share the same characteristics and risk factors. This allows us to design early intervention services around these insights. Crucially, this approach requires robust governance structures that protects personal information.

We are in the process of setting up extended hackathons, similar to those run through Surrey Heartlands, but with the ability to delve deeper, to expand on this knowledge base and develop specific early intervention, demand management strategies.

Before the Surrey Heartlands project started, 80% of analysts had not collaborated with those from other organisations within the Surrey Heartlands ICS. However, following the third hackathon, 93% of analysts said they felt either very or fairly well connected to colleagues from organisations outside their own. We can hope for a similar level of silo-breaking through our work on tackling domestic abuse.

An often mooted panacea of information-gathering involves establishing a "golden record", which provides a single joined-up view of a resident, by matching records and data across silos. However, the truth is that many public sector organisations are not in a position to create these in the here and now. There is a need to start small, build the foundations, and then scale up.

Successful adoption of single-view records is about having a clear roadmap for how you are going to build the data governance, establish matching processes, ensure data legislation compliance and so on. It is often too tempting to shoot ahead to the end, leading to a situation where the starting point is to create a golden record while simultaneously establishing all these additional processes and rules. Right from the outset this becomes unwieldy and there is little scope for active learning and continual improvement.

So we have more often started small with simple technical implementation and data preparation, before outlining how we get from that to where we ultimately want to be – a single view of a resident. The stages in between are set out to provide intrinsic value and practical use in themselves – for example, through a single view for helping children with special educational needs and disabilities to transition into adult social care. However, they also allow for learning and building on the data gathered at that particular stage until we are in a position to establish a far more complex and all-encompassing golden record.

This approach allows information to be gathered in such a way that enables us to use more sophisticated analytical techniques, supports semantic consistency, and allows for

'The hackathons have proven useful at facilitating the development of a network of analysts across organisations'

more opportunities for data exploration through increased data maturity and literacy. This is not to say we are all of a sudden experts in all things information-based, although I hope much of our thinking and learning will filter through to the wider sector.

Indeed, many organisational silos and barriers to a potent information game are deeply entrenched and will take time to break down. That is why it is impossible to overestimate the value of bringing people, communities and organisations together to solve problems in a spirit of true collaboration and partnership.

It is vital to remember how much we can continue to learn from across the sector, as well as beyond it. We want to ensure that we exist in an environment of continual learning and improvement. If we believed we had reached an endpoint, it would mean we were no longer looking to innovate, understand our residents and communities better, or dig deeper into whether the information we had was actually of any use to us.

Which takes us back to our starting point. The information game is one we must continually rise to and refresh, to ensure the best possible outcomes for the communities we serve. ●

‘Silos are one of the clearest signs of an inefficient and ineffective organisation’

Audit expectations

ESSAY

BY JOHN SINNOTT

Did we throw out the scrutiny baby with the Audit Commission bathwater? Events suggest the need for a rethink

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THE BEST VALUE inspection of Northamptonshire County Council by Max Caller, in March 2018, is a painful read for anyone who cares about local government's reputation and its integrity.

Of course, it should never have come to that. The observation by the then chair of the Local Government Association (LGA) to the Public Accounts Committee – to the effect that the looming problems of Northamptonshire were an open secret – was correct, and only adds to the sense of local government's failure. But moving from the political to the professional, there are and were similar questions for the auditors to answer about what they did or did not do with the knowledge they had.

The Caller report states that the external auditors were told that a section 114 notice, the local government equivalent to bankruptcy, could have been issued in October 2015 – nearly two and a half years before it happened – and had issued an advisory note on a potentially unlawful budget. What role the external auditors played in the intervening period in actually challenging Northamptonshire members and officers is unknown. As for internal audit, the report found it had been inadequately resourced.

So, what should be our expectations of auditors? I have always had a straightforward set of asks for external auditors. These include: a firm with an experienced partner dedicated to my council's audit, and with a team that avoids moving between too many different audits; people with a developed understanding of the complexities of partnership working; a relationship built on fair and reasonable challenge, and an ongoing conversation about the authority's financial health; a partner and lead auditor happy to engage openly with elected members; and auditors who are prepared to focus on work relevant to the authority, rather than lesser work that may suit them on a day-to-day basis – and who are able to work effectively with internal audit.

When I compare that list with the requirements of the National Audit Office 2015 Code of Practice, currently being revised for March 2020, there is some fit in respect to the auditor's work on value for money. But, overall, the code's version reads like a list of routine tasks and does not guarantee a robust examination of an organisation's financial health. (While contract price cannot be ignored, it is not the most important consideration for me or the section 151 officer.)

In relation to internal audit, my asks of the function and its personnel match those set out in CIPFA's 2019 statement. The statement highlights, among other priorities, risk management, the promotion of best practice in governance, up-to-date awareness of organisational challenges (which can be challenging in itself), and the key relationship with the external auditor. Management and member awareness of the role of internal audit needs to be regularly tested.

When the district audit service used to provide the majority of external audit to local government, I experienced only one disappointment with an auditor (who turned out to be not a qualified auditor but a best value inspector). That was not enough for me to join in the rejoicing when the Audit Commission was abolished. I was – and still firmly am – in the "baby thrown out with the bathwater" school of opinion as to how the abolition was promoted and implemented, and the consequences that followed.

While the government seemed to believe it was principally engaged in a money-saving exercise, the LGA was too keen on wrapping the audit function within a new accountability and performance management framework under its ownership. The appointment of auditors moved towards a process where cost could overshadow quality and – despite all the caveats – the independence and extent of the auditor's role felt constrained.

Today, the wheel has not quite gone full circle. But the government's announcement in July 2019 of a review, led by Sir Tony Redmond, to examine the purpose, scope and quality of statutory audits, and the supporting regulatory framework, does suggest a change of approach, reflecting concerns at the centre about current arrangements. Perhaps the review can look into the role of the auditors – mainly external, but also internal – in Northamptonshire, where there surely have to be lessons learnt.

'The appointment of auditors moved towards a process where cost could overshadow quality'

Indexing resilience

Meanwhile, I was encouraged to read the National Audit Office (NAO) report of January 2019 to the House of Commons. In contrast to assurances from some quarters that another Northamptonshire is not around the corner – and opposition from the LGA and local authority chief executives (more so than from section 151 officers) to CIPFA's resilience index proposals – the NAO report paints the real background to the risks local authorities face.

It flags concerns about their financial sustainability and resilience, and their fitness for purpose in that context. The origins of the report mean that the Ministry of Housing, Communities & Local Government (MHCLG) will have to respond to the select committee later this year.

It is useful to identify the different strands of audit review that are now in play, and the reasons why the effectiveness of the outputs and outcomes of audit are being questioned (principally, it should be noted, in relation to external audit). Some of the key issues include:

- How might the government-commissioned Kingman, Brydon, and Competition and Markets Authority reviews into the audit sector impact on local authority and public services audit? It could be a long wait, including for legislation, to find out whether changes in practice can transfer from the private to the public sector. But the matter of who is the auditor's ultimate client in either sector deserves to be settled sooner rather than later. The Redmond Review is also relevant here.
- Local government is well-placed to appreciate the concerns about the audit regime that have emerged with the abolition of the Audit Commission and the 2014 legislation. Take two examples: only about 60% of local authority accounts for 2018-19 were signed off on time, a significant reduction on 2017-18. That is a situation that cannot be left as it is, whether it is attributable to fee reduction or the complexity of the audits, or a combination of the two. Second, there is no one holding the ring in the manner of the Audit Commission, hence the internal disagreements in the local government sector and between some individual councils about the true state of the finances of at least a dozen or so councils.
- There are plenty of reasons here for local government to recognise the need for ▶

change, or else have change done to it. Local government will not be true to itself if, as too often before, it enters into a defensive mode and presents a critical or fudged response. An important footnote is that the chancellor's spending announcement in early September, with just a one-year focus, changes nothing. Indeed, it serves to make the point about the importance of longer-term sustainability.

- A positive reaction from local government would be to pull these strands together in response to the NAO's consultation on a new Code of Audit Practice, which is due to come into effect no later than April 2020 – parliament permitting. Local government really should welcome a new code.
- Such a response could usefully set out local government's expectations of external audit, not forgetting the relationship with internal audit, and the necessity of client trust and organisational understanding. This could be blended to form a narrative that precedes the technical requirements laid out in the code.

I would also invite the NAO, in finalising its new audit practice code, to consider whether more should be done to define good governance. The draft code defines governance as "how the body ensures that it makes informed decisions and properly manages its risks". There really is no other reference or criterion included. In contrast, the NAO's report of January 2019 to MHCLG includes a useful explanation of a "core local governance framework". It would benefit auditors and, in all probability, some local authorities if this was broken down still further, since a judgment of good governance does not lend itself exclusively to a tick-box approach. Each local authority is naturally different.

Sustainable organisations

Creating greater clarity over good governance should deliver a more balanced audit regime. An audit must not just ensure that accounts are technically correct, but also provide an independent view of whether the organisation is being run on a sustainable basis, as the new code envisages.

For both external and internal auditors, it is important to have an understanding of the dynamics of decision-making, which a simple listing of the roles of the executive, overview and scrutiny, audit committees and standards regimes cannot explain. For instance, key conversations about financial risk in the short or longer term will take place in private meetings, albeit ahead of public discussion, and audit committees typically will be reactive and not proactive, potentially reducing their impact.

In several councils, now including upper-tier authorities, the cabinet system has returned to replace the executive/scrutiny model, and then there are the mayoral models. All of which emphasises the different factors that have to be taken into account.

While statutory officers have their own responsibility to ensure internal workings are effective, auditors cannot expect to be effective in their separate roles if there is a shortcoming in their knowledge of how the authority works. Perhaps a prompt on how best to acquire this knowledge should be a requirement in the new code. Examples of good practice in the relationship between internal and external audit could also usefully feature as an addendum.

To end where I began, there are dangers in glossing over what happened in Northamptonshire – dangers for the users of local services, for individual authorities and local government representatives, and for government departments and ministers. Honesty within local government, combined with robust audit, will be crucial to avoid any repetition of past mistakes.

When the scope of the role of the external auditor first came to my attention, I was working in Liverpool at a junior level; perhaps unsurprisingly for the time, in the context of surcharge. In that era (prior to 2000) a member or an officer could be surcharged via the district auditor and the courts – or via the secretary of state – for unlawfully spending public funds. It is different now, but you wonder how the previous regime would have treated some recent events.

In a more joined-up world, it would be sensible for a new Code of Audit Practice to be introduced into local government, alongside a government response (now delayed) to the recommendations of the Committee on Standards in Public Life on local government standards.

And given the questioning reference to sanctions in the NAO's report to MHCLG, I would like to think that this is a point the NAO would itself want to make to government. In so doing, it would provide food for thought for those whose constant refrain is that local government is adequately policed and that self-regulation and self-improvement are always the answer. I am not among them. ●

'Only about 60% of local authority accounts for 2018-19 were signed off on time'

Talking about tomorrow

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