

<b>Institution:</b> Durham University		
<b>Unit of Assessment:</b> 17 Business and Management Studies		
<b>Title of case study:</b> Changing audit and accountability arrangements in English local government: Enhancing resilience and value for money		
<b>Period when the underpinning research was undertaken:</b> Between September 2015 and 2020		
<b>Details of staff conducting the underpinning research from the submitting unit:</b>		
<b>Name(s):</b>  Laurence Ferry	<b>Role(s) (e.g. job title):</b>  Professor	<b>Period(s) employed by submitting HEI:</b>  September 2015 - present
<b>Period when the claimed impact occurred:</b> Between September 2015 and December 2020		
<b>Is this case study continued from a case study submitted in 2014? N</b>		
<p><b>1. Summary of the impact</b></p> <p>Professor Ferry's research into public sector audit and accountability has significantly changed United Kingdom (UK) government thinking and policy making, which has in turn enhanced public accountability of local government spending. Ferry's work with the House of Commons (HoC) Housing, Communities and Local Government Select Committee (HCLG) was followed by the government of the UK ordering a major review of the Local Audit and Accountability Act 2014. The review by Sir Tony Redmond, the only high-level review in recent years focussed on public sector audit and financial reporting, engaged Ferry as a central part of the Steering Panel and made many recommendations based on Ferry's findings. The Redmond Review's report, published in September 2020, calls for a comprehensive overhaul of the current regulatory arrangements including primary legislation to establish a "new regulatory body responsible for procurement, contract management, regulation, and oversight of local audit". The UK Government responded to this review in December 2020, and is already in agreement with 60% of the recommendations; most of the remaining recommendations are being further considered by the Government before they make a further response. Ferry's research and engagement with the public audit community has also translated into changes to the National Audit Office (NAO) Code of Audit Practice (published April 2020). The effect of the changes in government thinking, the Redmond review and NAO Audit Code will radically improve financial resilience of Local Authority spending and its efficacy for local populations.</p>		
<p><b>2. Underpinning research</b></p> <p>The Local Audit and Accountability Act 2014 (LAA Act 2014) was the most significant regulatory change in over three decades to public audit, bringing in 'new' audit and inspection arrangements, for English local government and other local public bodies. It finalised the closure of the Audit Commission originally announced in 2010, thereby fundamentally changing the English local government regulatory system (R4). The changes from the LAA Act 2014 are critical for public service delivery, as England's 365 local authorities are the main conduit for public expenditure in England, with a net revenue budget of over GBP95billion for 2018/19, over 20% of total UK public sector expenditure. The impact of local government is also highly significant to other public services (such as Education, NHS, Police, Fire Services) due to joint work; and to the private sector, due to the effect on local communities and the extent of public service delivery and commissioning involving private sector partners. Therefore, the accountability of local authority finances is of high significance to social value in terms of the social, economic and environmental wellbeing of citizens across England (R3).</p> <p>Against the backdrop of the 2014 Act, Ferry has undertaken detailed qualitative and quantitative research into financial resilience, value for money and fairness in English local government, during a period when the central government operated a policy of 'austerity-localism', (significant cuts to local government budgets whilst at the same time affording local authorities substantially</p>		

more power to make decisions locally) which radically changed accountability regimes for public services (R2-R6).

An overarching motivation for Ferry's body of work is that public audit's purpose is to create accountability for the state and democracy (R3, R4). The post-Audit Commission public audit regime includes financial audit, giving an opinion on financial accounts, and whether Value for Money (VfM) arrangements are in place, but the inspection elements of audit, which determine whether VfM and fairness has been achieved, have been removed (R3). A key finding from Ferry's research is that the current focus on financial stewardship can be to the detriment of VfM (R3, R4, R6) and fairness (R3, R4). He highlighted challenges for the new accountability regime that included the fact that transparency may not adequately replace accountability, due to the loss of formal information. This is because the audit requirements for local government were significantly reduced, shrinking both the audit cost but also the level of scrutiny (more detailed audit costs more), and hence the information available to the taxpayer (and others) since 2010 on where money is being spent has also been significantly reduced (R3, R4). Ferry also identified that the reduction in performance information is constraining public reporting, scrutiny and public assurance (R2, R3, R4, R6), and the changing mix of accountability and transparency may involve VfM risks (R3, R4). Ultimately, he highlighted the dangers this has for actual and perceived fairness in society (R2, R5). Ferry therefore proposed a broader approach for public audit that covered financial stewardship, VfM and fairness to uphold accountability for the state and democracy (R3, R4).

Ferry's successful fellowship application enabled his unique access to Parliamentary archives, as a Parliamentary Academic Fellow and then Adviser. He developed and presented a scoping report for the HoC HCLG on accountability in local government. The HoC HCLG then supported Ferry to produce his published Parliament Report (R1), combining findings from his previous research with an extensive documentation review of practitioner and academic literature and new work through Parliamentary enabled/supported access to 'elite' stakeholders during this period. Ferry conducted over 50 interviews of key players in the local government audit sphere; politicians, government and Parliamentary officials, the NAO, think tanks, accountancy firms and consultants. The published report covers savings from regulatory changes, fragmentation of bodies involved, auditor independence, audit scope, audit competition and sustainability of the market, inspection and intervention arrangements, and implications for accountability and democracy. The full report was published by the House of Commons Housing, Communities and Local Government Select Committee in July 2019.

### 3. References to the research

R1: Ferry, L. (2019). Audit and Inspection Arrangements of Local Authorities in England. Housing, Communities and Local Government Select Committee, House of Commons, Parliament.

R2: Ferry, L., Ahrens, T. & Khalifa, R. (2019). Public value, institutional logics and practice variation during austerity at Newcastle City Council. *Public Management Review* 21(1): 96-115. DOI: 10.1080/14719037.2018.1462398

R3: Murphy, P., Ferry, L., Glennon, R. & Greenhalgh, K. (2018). Public Service Accountability: Rekindling a Debate. Palgrave Macmillan. DOI: 10.1007/978-3-319-93384-9

R4: Ferry, L. & Murphy, P. (2018). What about financial sustainability of local government! – A critical review of accountability, transparency, and public assurance arrangements in England during austerity. *International Journal of Public Administration* 41(8): 619-629. DOI: 10.1080/01900692.2017.1292285

R5: Ferry, L. and Ahrens, T. (2017). Using management control to understand public sector corporate governance changes: localism, public interest, and enabling control in an English local authority. *Journal of Accounting and Organizational Change* 13(4): 548-567. (*Highly Commended Paper Award from Journal*). DOI: 10.1108/JAOC-12-2016-0092

R6: Ferry, L., Coombs, H. & Eckersley, P. (2017). Budgetary stewardship, innovation and working culture: Identifying the missing ingredient in English and Welsh local authorities' recipes

for austerity management. *Financial Accountability and Management* 33(2): 220-243. DOI: 10.1111/faam.12117

This body of work is deemed to be above the 2\* benchmark; it has been published by a select committee in the United Kingdom's Parliament, and in multiple international peer-reviewed journals. Ferry's activities with Parliament were supported by ESRC Impact Acceleration Account funding.

#### 4. Details of the impact

Professor Ferry has undertaken a range of activities in recent years to ensure that his research findings reach policymakers, including extensive work with government and accounting / accountability organisations, informing policy debates around resilience, VfM and fairness in communities, regions and society. His appointment as a Parliamentary Academic Fellow, working with the House of Commons Housing, Communities and Local Government Select Committee from March 2018, was the culmination of his earlier activities, which include giving extensive written and oral evidence to the UK Parliament, and working closely with organisations such as the NAO, the Ministry of Housing, Communities and Local Government (MHCLG), the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Centre for Public Scrutiny (CfPS), where he disseminates, discusses, and advises on his research (including R1-R6), feeding into their activities and practices [E1, E4, E5, E9, E10].

Ferry's written submissions to HoC HCLG enquiries have included those to: 1) The "Brexit and Local Government" enquiry, which led to his giving oral evidence to the committee [E9] in December 2017, focussing on what this may mean for the role of local government and place-based accountability especially given the increased commercialisation of local public services; and 2) the "Government interventions: the use of Commissioners in Rotherham Metropolitan Borough Council and the London Borough of Tower Hamlets" enquiry. The latter's report quotes Ferry's submission, in which he refers to his research findings, that austerity-localism causes problems in ensuring that local authorities provide value for money: "The framework is geared to prevent financial failure, which means financial pressure will more likely lead to service rather than financial impacts" [E10]. The HoC Public Administration and Constitutional Affairs Committee's 2017 report on "Accounting for democracy: making sure Parliament, the people and ministers know how and why public money is spent" cites a written submission by Ferry and Dr Chow (a former Durham colleague), that "under accrual accounting the revenue and expenditure statement will include items previously hidden from view". This feeds into one of the report's recommendations, that "Accruals accounting has allowed Parliament and the public to gain a better understanding of how the Government uses its resources and manages its assets and liabilities. Accruals accounting is therefore a good basis for the further work" [E10].

The greatest impacts on policy of Ferry's research, however, arise from his work as a Parliamentary Academic Fellow with the HoC HCLG from March 2018 to December 2019 (the appointment was extended beyond the usual 12 months) [E7], and his subsequent appointment in 2020 as an Adviser to the Committee. In both roles, Ferry worked with Select Committee MPs and officers in a research/advisory capacity concerning accountability and procedure arrangements. Ferry's work with the Committee coincided with the need for scrutiny of the LAA Act 2014. As the HoC HCLG committee clerk (until July 2019) Ed Beale states: "*Laurence's original work proposals (sic) was to conduct research on local government accountability, particularly in a post-Brexit landscape. This was particularly attractive to the Committee... due to the fact the Committee was conducting an inquiry on the impact of Brexit on Local Government, and secondly because I knew the Committee would be required to conduct post-legislative scrutiny of the Local Audit and Accountability Act 2014 at some point in 2020.*" Ferry's scoping report led to the Committee, chaired by Clive Betts MP, requesting a full Parliamentary report (R1). As Ed Beale attests: "*Clive agreed with the proposal and approach and felt it would be a valuable contribution to inform the Committee's future work*" [E7].

Ferry produced a full report for Parliament (R1), "Audit and Inspection of Local Authorities in England: Five years after the Local Audit and Accountability Act 2014", underpinned by his

research (R2 – R6), and extended via new research benefiting from his fellowship that supported HoC access to documents, and interviews with key stakeholders. The report's executive summary was presented to, and approved by, the Chair and Clerk of the Select Committee. The full report was presented to the full HoC HCLG committee in July 2019 [E7] and formally published by the Committee, with the endorsement of the Committee Clerk that it was "*considered ... outstanding and high quality*" [E7]. It is now available on the UK Parliament website.

The Select Committee chair, Clive Betts MP, formally sent Ferry's published report to the Secretary of State "*to help inform the post-legislative scrutiny evaluation of the Act*" [E6]. "*It is extremely unusual for the Committee to share with the Ministry any publication except its own reports*", attests Betts, who also stated that once the Government published their evaluation of the Act, Ferry's report would be "*the basis of the Committee's consideration*" (of the evaluation findings) [E8].

As a result of the work of Ferry and the select committee, drawing attention to the fact that a higher level of scrutiny of the LAA Act 2014 than legally required was necessary, the Secretary of State announced in July 2019 [E3, E6] that Sir Tony Redmond would carry out an independent review of the local authority audit framework and of the transparency of local authority financial reporting in England. Upon receiving Ferry's report from the Committee, the Secretary of State commented that he was "*confident it will help to inform Sir Tony's findings*" and that he expected "*Sir Tony will want to meet separately with ... Professor Ferry*" [E6]. This review is the first to be fully focused in recent years on public sector audit, after four recent reports focussing on issues in the private sector (Brydon, Competition and Markets Authority, Kingman and Business, Energy and Industrial Strategy Committee). Ferry was subsequently invited by Redmond to sit on the Review's seven-member Advisory Panel as the only academic expert, alongside high-ranking members of Government departments and auditing organisations [E1, E3]. The Panel endorsed using the HCLG Select Committee (Ferry's) report [R1] as "*it contains useful evidence which could be utilised by the Review*" [E3] and Ferry was also interviewed as part of the review. Redmond attested that Ferry's "*knowledge and expertise have been invaluable*" and that his "*report - Audit and Inspection of Local Authorities in England: Five years after the Local Audit and Accountability Act 2014, will play a part in informing the final Report and recommendations*" [E3].

Alongside the Redmond Review, 2020 saw the publication of the NAO's latest Audit Code of Practice, for auditors of local authorities, health bodies, police and fire. Ferry's findings led to changes to the Code, which now enables local auditors to feed information to the NAO, and around consideration of financial resilience and VfM matters; the NAO's Director Aileen Murphie attested (prior to the Code's publication) that "*a loss of available information for the public on value for money locally is well proven by your [Ferry's] work and has been picked up by the NAO as an issue in the renewal of Code of Audit Practice*", and that Ferry's recent work led to "*much discussion and helped to move the revised Code towards a proposed narrative value for money conclusion ... The new conclusion should be much more tailored to the issues of individual places, their financial resilience and be a great deal more informative.*" The Audit Guidance Notes, used by auditors to interpret the Code, have also been informed by Ferry's work [E4].

The Redmond Review report was published in September 2020, recommending significant changes to public audit [E1], including tackling many issues highlighted by Ferry in his Parliamentary report [R1]; "*I have been guided by the need to see more accountability and transparency in the local audit system and my proposed recommendations reflect these principles*" said Redmond [E1]. These include the recommendation that an Office of Local Audit Regulation is created to oversee, procure, manage and regulate the external audits of local authorities in England. The creation of such a body requires primary legislation, and such discussions of a law change will bring this issue into the wider Parliamentary consciousness. This new body would overcome the serious concerns highlighted by Ferry around fragmentation of the current bodies involved in the audit process, and auditor independence and sustainability of the market, around audit competition. The implications around audit scope concerning VfM

arising in particular from Ferry's report were also considered by Redmond; Redmond endorsed the changes to the latest NAO Audit Code of Practice from earlier in 2020 that Ferry's research had also informed. In addition, inspection concerns relating to service and financial viability are recommended by Redmond to be shared between local auditors and inspectorates, further reflecting points highlighted by Ferry. Finally, a simplified statement of service information and costs is also recommended to be prepared by each local authority to assist comparison with what was promised and to enable a judgment on performance, addressing some of Ferry's concerns around performance information. Overall, these recommendations to the government by Redmond strengthen public accountability for democracy in line with Ferry's research. Upon the publication of the Redmond report, the Secretary of State for Local Government, the Rt Hon Robert Jenrick MP, stated that *he "will consider the findings and recommendations carefully"*; the press release also confirmed that the MHCLG would *"carefully consider the recommendations proposed, which will play an important strategic role in strengthening the overall framework for local accountability"* [E1]. On 17 December 2020, the UK Government's MHCLG published their response to the Redmond Review. Of the 23 recommendations made by the review, the Ministry agreed to 14 of the recommendations, partly agreed to a further 2, and are considering the other 7 recommendations further, offering a full response to these in Spring 2021 [E2].

## 5. Sources to corroborate the impact

### Changes to local audit and regulations

E1 Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting report by Sir Tony Redmond (gov.uk press release and report, 8 September 2020).

E2 Local authority financial reporting and external audit: government response to the independent review (response of UK government to E1, 17 December 2020).

E3 Redmond Review: announcement and Terms of Reference, email from Sir Tony Redmond describing Ferry's involvement and Minutes [from Redmond Review Panel].

E4 Letter from Aileen Murphie, a director at the National Audit Office (6 February 2020).

E5 House of Commons Library Briefing Paper on 'Local audit in England' by Mark Sandford (9 September 2019).

### Parliament report and select committee fellow/adviser

E6 Letter from HoC HCLG to Secretary of State (SoS) enclosing R1 and its key findings (18 July 2019), with response from SoS (23 July 2019), and announcement of R1's publication on the UK Parliament website.

E7 Testimonial from Ed Beale (former HCLG Select Committee Clerk, 13 September 2019).

E8 Testimonial from Clive Betts (MP and Chair of HCLG Select Committee, 9 September 2019).

### Written and oral evidence to Parliament prior to select committee fellowship

E9 HoC Brexit and local government enquiry: Ferry's written (November 2017) and oral evidence (transcript, 6 December 2017), and Parliament report (published 3 April 2019)

E10 HoC Reports citing Ferry's evidence: (a) HCLG Tower Hamlets enquiry and (b) PACAC Accounting for democracy enquiry.