



# Why public audit is vital for transparency and trust

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# Remarkable Continuity of Core Issues

(Public Accounts Committee, *Proper Conduct of Public Business*, 1994)

Prelude to the Nolan Report (1995) included political scandals (some sexual rather than financial) damaging the UK Conservative Government of John Major (1990-97), and a famous report on inefficiency and policy failure by the House of Commons Public Accounts Committee.

## *Adequate financial controls*

Inadequate/outdated procedures

Poor monitoring

Inexperienced staff

Failure to pursue money owed

Waste, fraud and theft

## *Compliance with existing rules*

Grants paid, but no evidence of entitlement

Unauthorised payments

Failure to recover overpayments

## *Proper stewardship*

Inadequate oversight by Boards

Control arrangements unclear

Over-dominant Chief Executives

Lack of prompt corrective action

Concealment of information

## *Provision of Value for Money*

Poor management of building and computer projects

Limited competition

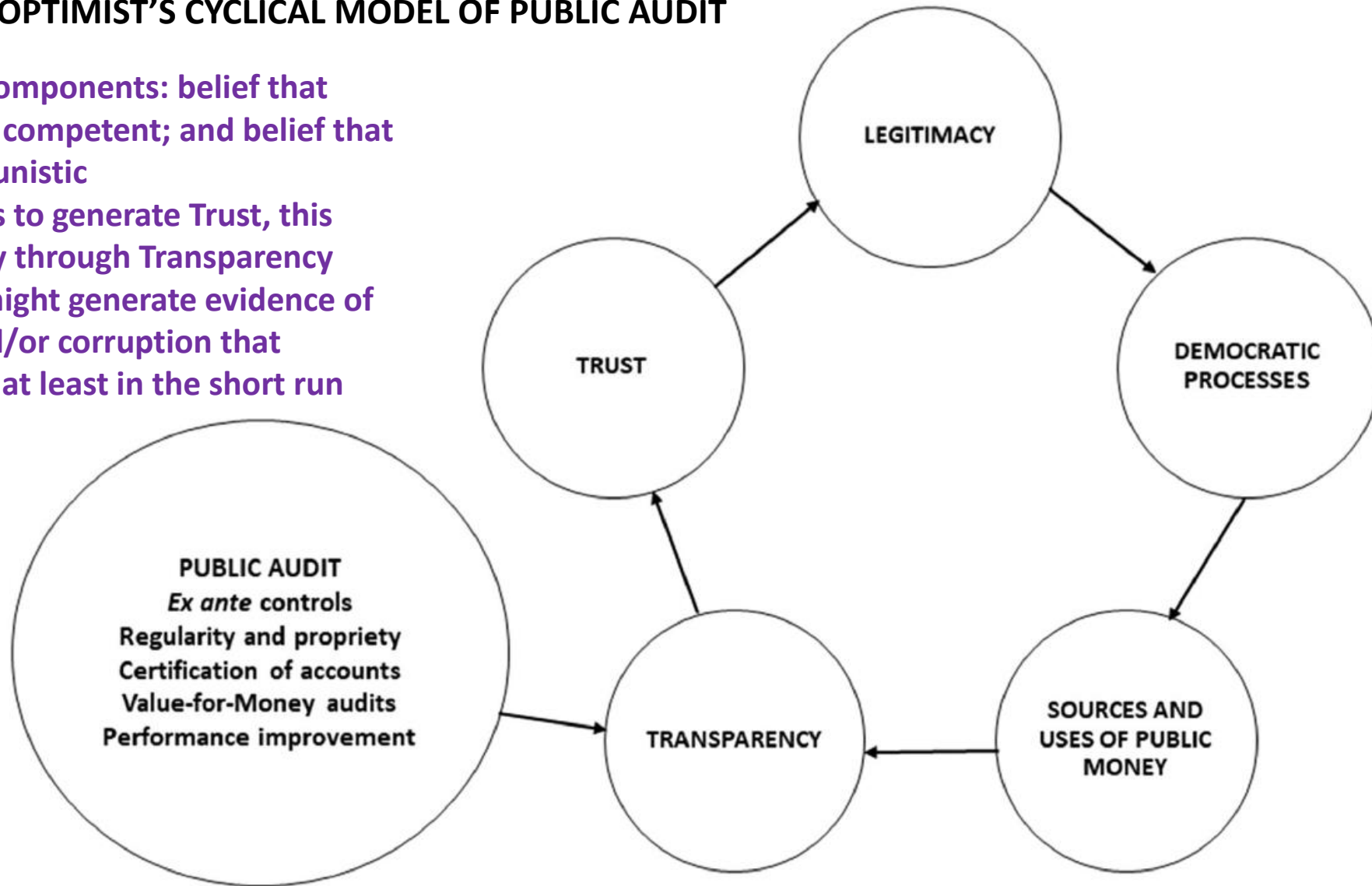
Conflicts of interest

Digitalisation of government business produces a new generation of risks both to citizens and businesses (eg fake websites purporting to be official ones) and to governments (eg fraudulent schemes to access benefits or loans, steal confidential information or exact ransom payments).

What is striking is how this Report, now 30 years old, still resonates.

**Figure 1: AN OPTIMIST'S CYCLICAL MODEL OF PUBLIC AUDIT**

- (1) Trust has two components: belief that counterparty is competent; and belief that it is not opportunistic
- (2) If public audit is to generate Trust, this works indirectly through Transparency
- (3) Transparency might generate evidence of inefficiency and/or corruption that damages Trust, at least in the short run



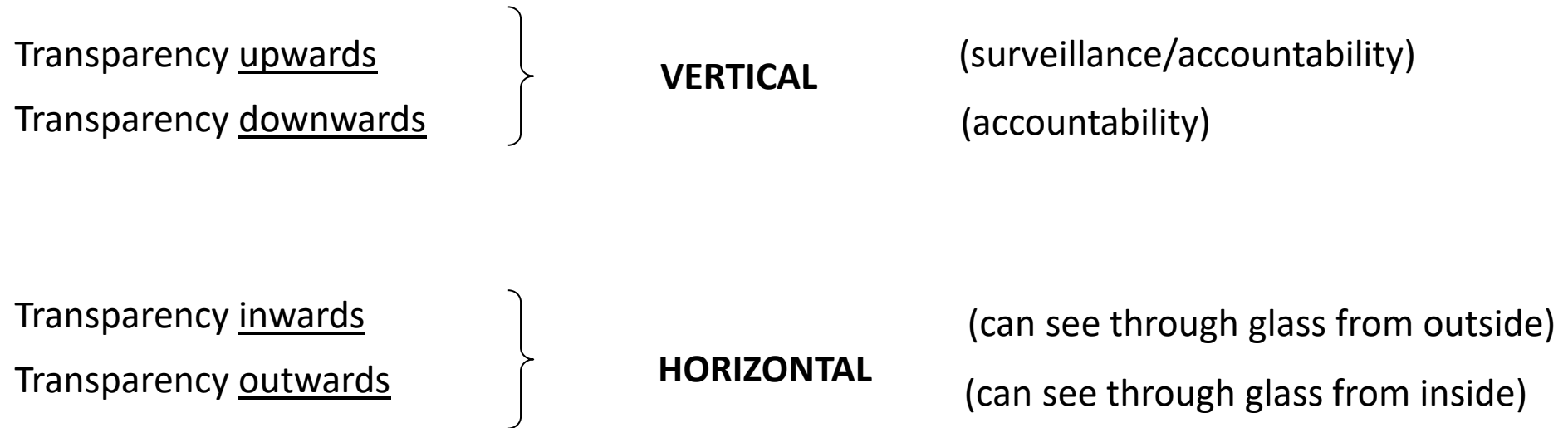
Source: Heald (2018, Figure 2, Page 5)

**Figure 2: TYPOLOGY OF PUBLIC AUDIT INSTITUTIONS**

Degree of external influence over institution  Degree of professional autonomy exercised by institution	High	Low
High	Political (eg US Government Accountability Office, Audit Commission)	Professional (eg NAO, NIAO), Collegiate Bodies
Low	Hierarchical (government department)	Legal (Court of Accounts)

Source: Posner and Shahan (2014); minor clarifications by presenter.

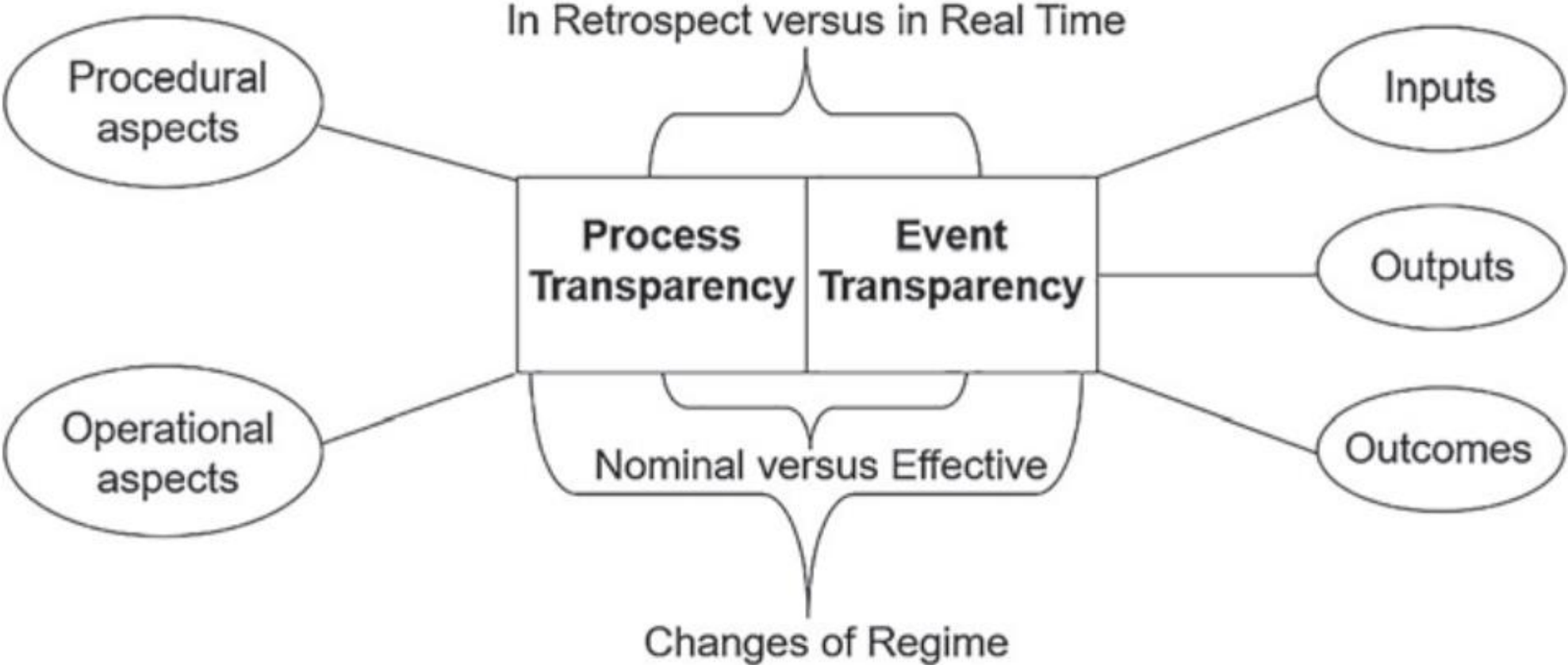
### Figure 3: DIRECTIONS OF TRANSPARENCY



ISSUE OF SYMMETRY – ‘fully symmetric transparency’ when all four directions are present;  
‘fully symmetric non-transparency when none are present’.

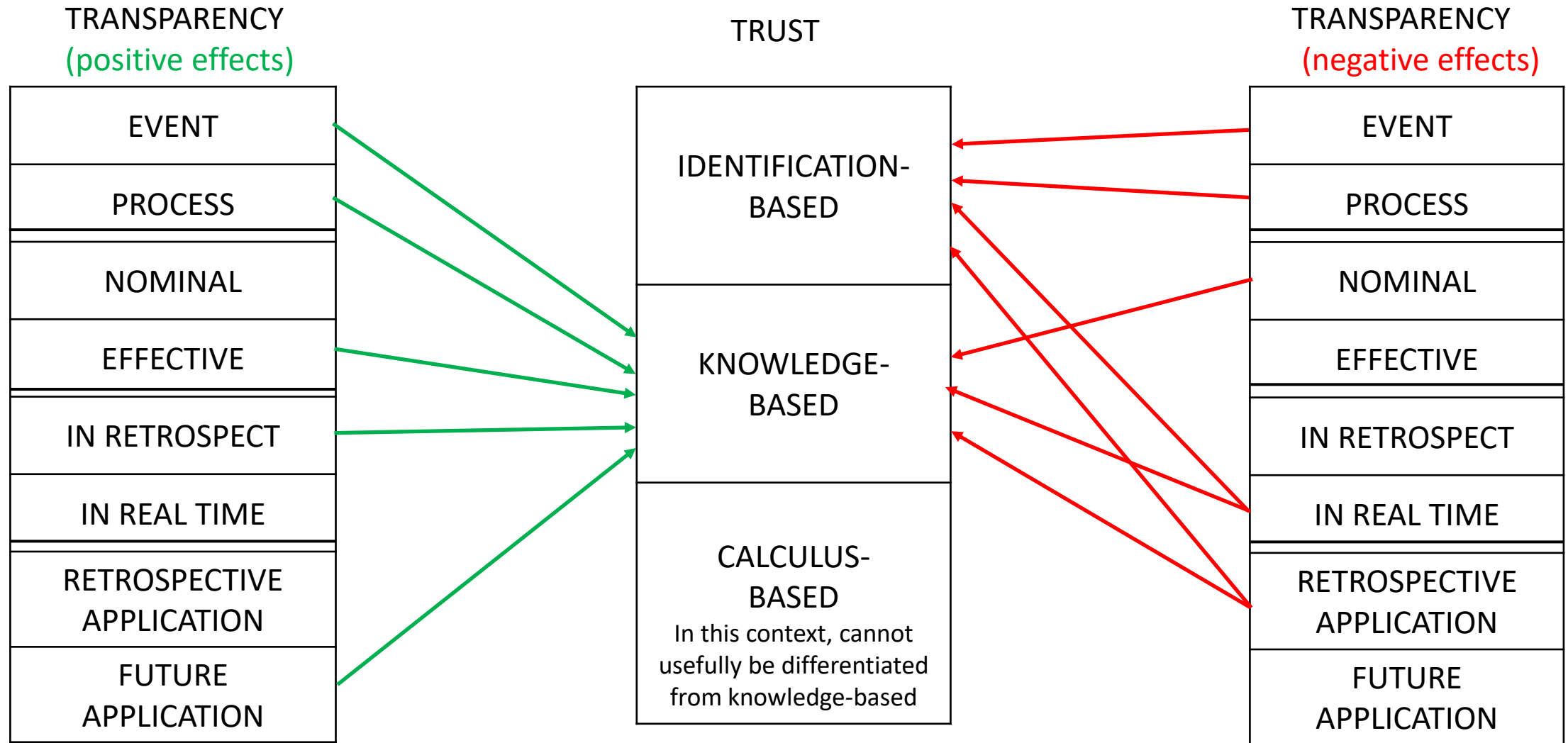
Source: Heald (2012, Figure 1, p. 33); modification of layout by presenter.

**Figure 4 : VARIETIES OF TRANSPARENCY**



Source: Heald (2012, Figure 2, p. 34)

**Figure 5: HYPOTHESIZED EFFECTS OF VARIETIES OF TRANSPARENCY ON TRUST**



Source: Heald (2018, Figure 4, Page 10)

# Scope Issue 1: Certification Audit

- Sharman Report (2001) emphasised the principle that, in contrast to the private sector, public bodies should not appoint their own auditors. This had largely been accepted, following the establishment by Conservative Cabinet Minister Michael Heseltine of the Audit Commission in 1982. The Sharman issue referred only to a few, albeit important, quangos where the rights to appoint were held by either the minister or the public body
- Starting with Monitor (a regulatory body) taking over responsibility for appointing the auditors of NHS Foundation Trusts in England (during the 2005-10 Labour Government), the abolition of the Audit Commission (during the 2010-15 Coalition Government) undermined the Sharman principle
- Certification of public sector financial reports is comparable to that of private sector accounts, except in relation to Parliamentary Supply:
  - What is the relationship between certification audit and VFM audit; conducted by the same teams and/or within the same organisation?
  - Whether audit is done by public sector employees or outsourced to private firms
  - Whether private audit firms would be willing to alienate clients (as opposed to resigning quietly) and become involved in complex, politically controversial cases (as KPMG had been in Westminster Council's council housing disposal abuses). An element in the English local audit crisis (Bradley et al., 2023) has been private audit firms' fears of Financial Reporting Council inspections in the context of corporate audit scandals and reduced capacity in local authorities



# Scope Issue 2: Propriety

- Propriety includes Regularity (compliance with appropriate authorisation), covering conduct, behaviour, fairness and integrity
- Links to [\*The Seven Principles of Public Life\*](#) (Nolan Committee, 1995): Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, Leadership
- Compared to many other jurisdictions in the world, British public life is comparatively 'clean' but that is no reason for complacency:
  - Coming into force of the *Bribery Act 2010* and the information made public through corporate settlement of cases with US regulatory bodies (eg Rolls Royce plc), the extent of UK complicity in corruption in vulnerable and/or repressive states is disturbing. It prompts the question of whether UK incidents are being missed
  - The vigorous digitalisation agenda of Governments ('put services online' to reduce costs) may be opening up government processes to large-scale criminal fraud (as opposed to fraud by individual persons and companies)
  - Deep damage was done to public trust in politicians and governments by the Westminster Parliament's expenses scandal of 2009. In the context of UK public spending, the actual frauds were trivial, but the repercussions of devaluing parliamentary institutions have been traumatic. The background was an official policy, originating during the 1970s, of keeping down MPs' salaries but encouraging expenses claims. This damage to its standing has further weakened the Westminster Parliament's capacity to scrutinise and challenge the Executive. Controversies over Brexit and the Covid-19 response have further damaged Parliament, the role of which is often conflated with that of Government

## Scope Issue 3: VFM Audit and Policy

- What can/should public auditors question, and what is beyond their remit? Are certain issues avoided because they are too politically sensitive?
- ‘Policy’ versus the ‘implementation of policy’; governments wrap initiatives up as ‘policy’ to insulate them from VFM audit. This leads to VFM reports which are sometimes written in ‘coded’ language, thus limiting the audience that understands the point
- VFM reports have to be cleared for ‘facts’ with audited departments, before publication, so that disputes about facts do not occur at the Public Accounts Committee. Probably desirable but sometimes leads to extended negotiation and delays, and also encourages opaque drafting
- The development of the internet makes it much easier for Public Audit bodies to disseminate their work, as evidenced by, *inter alia*, the website of the Northern Ireland Audit Office. In the print-only era it was expensive, at least in terms of time, to access accounts and VFM reports

# Scope Issue 4: Performance Improvement Agency

- Heald (2018) argues that the role of public auditors is not “to help the government” beyond what emerges from its own core work. Support for “helping government” comes from ACCA (2014) [Breaking out: Public audit's new role in a post crash world](#)
- Audit is essentially *ex post* whereas government decision-making is *ex ante*. If public auditors become a ‘partner’ of government, they lose their independence to carry out *ex post* evaluations. The Executive will later say: “But we did what you suggested as the High Speed 2 and Universal Credit projects were being developed.”
- The incoming 2010 Conservative-Liberal Democrat Coalition’s abolition of the Audit Commission was made easier because the Audit Commission had seen its role as an improvement agency for the 1997-2010 Labour Government. It had alienated many clients and its stakeholders would not defend its usefulness. The 2010s’ decade was disastrous for English local government. Perhaps it would have been less bad if the Audit Commission had still been there to document the England-wide deterioration of public services (Bradley et al., 2023)
- How to handle government, Parliamentary and media pressures to become involved in performance improvement is a difficult issue for Audit Offices

# Key Issues for Discussion

- **Governance of Audit Offices:** Heald (2008) opposed the creation of the statutory NAO Board and expressed doubts to the Northern Ireland Assembly Audit Committee about the proposal for a statutory NIAO Board, while supporting a term limit for the (then) next C&AGNI (Heald, 2020)
- **How to engage with Legislatures:** the NAO gains protection from the Executive through the standing and operating mode of the Westminster Public Accounts Committee which is more independent of party than other select committees. NIAO has suffered from long periods when the Assembly has not been functioning, depriving it of an important channel of influence and a protective umbrella
- **Identifying the audiences** for an Audit Office's outputs, and assessing whether these have been reached
- **The relationship between Transparency and Trust:** audit evidence on bad performance might, at least in the short term, further undermine trust in government and politicians. Media coverage has a negativity bias: reports criticising waste get headlines whereas reports praising good performance sink without trace

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