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Mission critical: is Oflog up to the job?

By: [Kerry Lorimer](#) | 8 Aug 23

A new local government oversight body for England is coming, but can it do the job?



The high-profile financial problems at councils in England – with a dozen others believed to be on the brink of failure – have raised a crucial question: why did no one ring the alarm bell sooner? Weaknesses in

governance and financial reporting make effective scrutiny more critical than ever, and yet the crisis in local audit is expected to see the backlog of outstanding opinions top 1,000 by the end of the year.

Well before the Audit Commission was abolished in 2015, there were warnings that the fragmentation of the local audit regime would lead to poor coordination, the dispersal of specialist expertise and the loss of an early warning signal to flag up systemic issues.

Action is now being taken to restore local public audit by handing a system leadership role to the Audit, Reporting and Governance Authority (Arga) – the body due to replace the Financial Reporting Council – although its implementation has been dogged by legislative delays.

Measure, monitor and analyse

Meanwhile, a new watchdog, the Office for Local Government (Oflog), will analyse local government data to shine a light on the performance of local leaders, although its precise remit is still under discussion.

Secretary of state for levelling up, housing & communities Michael Gove told Northern leaders earlier this year that the body would produce a “detailed and precise comparison” of delivery across local authorities and mayoral combined authorities.

“Value for money and effectiveness of service will be measured more effectively than ever before, monitored and analysed so we can learn from the best and support others to improve,” he said.

According to CIPFA chief executive Rob Whiteman, the depth and prevalence of local government failure may have fuelled a rethink on the need for a body to oversee the accountability of local government.

At the end of 2020, the government rejected a key recommendation of the Redmond Review that a single body be created to manage and regulate local authority audit.

“Here we are, just a couple of years later, where they’ve clearly changed their minds and think that creating public bodies in the space of local government accountability may be needed,” says Whiteman.

He believes these distinct initiatives are likely to operate independently – for now at least.

“At the moment, we’re in a fragmented place, where they’re taking initiatives, because of their concerns. It’s all a bit of a moveable feast, because we all acknowledge that the degree of failure is significant and growing,” he says.

“Of course, at some point in the future, the government might say ‘Why don’t we put all these initiatives together and have something like the Audit Commission’. I think that’s probably a matter of when, not if.”

Cumbersome

The key question now is the response of the local government sector, whose memory of the Audit Commission’s bruising comprehensive performance assessment inspection regime has left it wary of the body’s potential resurrection under a new name.

“There’s no question that the CPA regime became cumbersome and created an inflexible version of what ‘good’ looks like,” says Whiteman.

“It meant councils were understandably playing the system and scrubbing up well against the system in order to get a good score, which actually was not necessarily the only route to being a good council.”

However, he points out that the underlying question of how to form a judgment about the delivery of local public services has not gone away.

“It is definitely time for local government to think about what ‘good’ would actually look like for local government accountability, because it needs to have a voice in this discussion other than ‘Let’s not bring back the Audit Commission’, which is a pretty narrow and unconvincing voice,” he says.

Whiteman’s own view is that auditors must once again get involved again in good governance and decision-making as a “line of defence” for the taxpayer.

“Before the abolition of the Audit Commission, local public auditors were very involved in the good

governance of local authorities and would act in the public interest if they thought that local authorities were potentially making bad decisions, and that's what we've lost," he says.



An English crisis

The crisis in local audit is a uniquely English phenomenon.

In Scotland, public sector bodies do not appoint their own auditors: the Accounts Commission is responsible for securing the audits of local government bodies, while the Auditor General for Scotland appoints auditors to most other public sector bodies.

Around two-thirds of Scottish public bodies are audited by Audit Scotland, with the remainder of audits carried out by private sector firms.

In Wales, the Auditor General is the statutory external auditor of most of the Welsh public sector, while the audit of local government bodies in Northern Ireland is undertaken by the Local Government Auditor.

According to the University of Glasgow's David Heald, the system disruption seen in England and the impact of prolonged austerity have created unique challenges, while the sheer scale of English local government makes it difficult to form a clear view of emerging problems.

"Nobody could possibly know where the weaknesses are on an informal basis – England needs much more systematic arrangements," he says.

So, could England adopt the arrangements proven to work elsewhere in the UK?

Although Heald backs the mixed procurement model used in Scotland, he is sceptical about the prospect of rebuilding public sector local audit capacity in England.

"If you tried to go there now, you might destabilise the system, [which] is very fragile," says Heald.

Beat the backlog

However, before that can happen, the backlog of audits must be addressed, and an acknowledgement reached that public sector assets do not carry the same degree of risk as those that appear on corporate

balance sheets.

“We’ve got to get through these two transactional sets of problems to get to the prize of auditors once again – in old money, acting like the district auditor, with a local public official being involved in the good governance of councils,” says Whiteman.

“That’s what we’re missing at the moment and that’s why we’re seeing so much local government failure.”

“It’s all a bit of a moveable feast, because we all acknowledge that the degree of [local government] failure is significant and growing”

According to former audit commissioner Chris White, now the Lib Dem leader of St Albans City and District Council, many in local government are apprehensive about a return to the CPA.

“In its dying days, CPA was just getting stupid,” he says. “But there’s also a fear of increased meddling and the cost of gathering data.”

The current system of peer review, which allows the council being assessed to have a voice in the process, is more widely accepted as fair and reasonable.

“Having a challenge system – where you can challenge back and reach an agreed view as to where the organisation being looked at needs to go – is clearly a better model,” White says.

“I don’t think anyone is suggesting at this moment that there is an attempt to change that, but the nervousness is there, because it’s really very difficult to see what Oflog is actually trying to do.”

There is also unease that councils may be judged on inappropriate or inadequate criteria. A recent ministerial meeting to discuss the new watchdog was “pretty amicable” until civil servants unveiled draft metrics that, in White’s view, completely failed to capture the complexity of the areas being evaluated.

“Where we ended up was that more work has to be done on this... they’re going to go more slowly, they haven’t got the metrics right,” says White.

Although he is unconvinced by the other potential aspects of Oflog’s role, he can see a case for the body enabling “timely and targeted” support when needed.

“Some councils have got themselves into real difficulties, particularly financial, and I think there’s a feeling that had there been the early warning that the Audit Commission used to provide, either through its auditors or its inspection regime, there could have been earlier intervention,” he adds.

Return to district audit

“There is a worry there, and I can see why the government might want an institution to do that.”

In White’s view, the two most useful roles the new body could provide would be a return to district audit and the provision of authoritative advice on issues councils have struggled to progress, such as the rollout of electric vehicle charging points.

“If we had the Audit Commission without the silly bits, without CPA, that could be quite good and would solve more than one problem,” he says.

David Heald, emeritus professor at the Adam Smith Business School, University of Glasgow, says the priority must be to mop up the “complete mess” caused by the backlog in local authority accounts and accept that many more qualified audit opinions will be inevitable.

Prior to the abolition of district audit, which he sees as a serious policy mistake resulting from ministerial antagonism to the Audit Commission, he had warned of the potential impact of the change.

“But the fears I had in 2011 were nothing like the chaos that has resulted,” he says.

“If you’re going to abolish public sector-employed auditors, which is what the district audit was, you got to make sure that the audit business from local authorities is profitable for private firms. Audit firms will only take on jobs if they’re going to make money out of it.”

“If we had the Audit Commission without the silly bits [or] CPA, that could be quite good and would solve more than one problem”

Instead, the “obsession” of the government at the time was to cut audit fees – which meant less audit precisely when councils, faced with drastic funding cuts, were taking on risks such as commercial property investment that turned out to be far too dangerous.

Armchair auditors

The idea of professional auditors being replaced by a wave of armchair auditors who would scrutinise the spending of their local council was “just nonsense”, says Heald. “You wouldn’t expect citizens to pronounce upon the safety of a bridge,” he adds.

Without the protection of the Audit Commission, which stood behind the private audit firms that challenged local authorities, those firms found themselves in a vulnerable position and were unsurprisingly reluctant to issue public interest notices.



“Hesitation to draw reputational flak for ringing the alarm bell allowed a system-wide crisis to develop,” he says.

Heald is concerned about the lack of urgency in establishing Arga, and fears the body will be dominated by private sector corporate audit interests.

“Local audit concerns might be subsumed within the wider parameters of Arga’s work, with no differences of principle allowed,” he warns.

He sees the provision of standardised performance information across local authority service areas – previously the domain of the Audit Commission – as the gap Oflog could most usefully fill.

“The obvious question is going to be how comparable the data is,” he says.

According to the Department for Levelling Up, Housing & Communities, the selection of metrics to be used by the new watchdog is still under way, and building its data pool will be an iterative process.

“The purpose of Oflog is to increase transparency, foster accountability and help drive local government performance,” says a spokesperson.

“We are working with representatives from local government to co-design the metrics to be used by Oflog and will confirm the final list in due course.”

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Kerry Lorimer

Scotland-based freelance journalist

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