



National Audit Office

Report

by the Comptroller
and Auditor General

Ministry of Housing, Communities & Local Government

Local authority governance

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Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

11 January 2019

This report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending is value for money and that local authorities are financially sustainable.

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Key facts

28.6%

real-terms reduction in local authorities' spending power (government funding plus council tax), 2010-11 to 2017-18

£2.5bn

increase in local authority spending on acquiring land and existing buildings from 2015-16 to 2017-18, much of which is for commercial investment purposes

34.2%

real-terms decrease in spending on corporate and democratic support services by local authorities from 2010-11 to 2017-18

- 27%** of local authorities' external auditors in our survey thought risk profiles had increased from 2016-17 to 2017-18
- 77%** of chief finance officers (section 151 officers) in our survey agreed that their finance function was sufficiently resourced
- 89%** of chief finance officers (section 151 officers) from single tier and county councils in our survey are on their senior leadership team
- 98%** of chief finance officers (section 151 officers) in our survey agreed or strongly agreed that they felt able to provide challenging information to elected members
- 32.7%** of local authorities' audit committees have at least one independent member
- 48%** of external auditors in our survey agreed or strongly agreed that audit committee members in their authority were appropriately trained to deliver their role
- 18.5%** of local authorities' whistleblowing policies published on their websites advised people to contact the Audit Commission, which was abolished in 2015
- 25%** of chief finance officers (section 151 officers) of single tier and county councils in our survey felt that their audit fee for 2017-18 was too low relative to the risk faced by the authority

Summary

1 Local authorities are accountable to their communities for how they spend their money and for ensuring that this spending represents value for money. Local politicians and officers operate within local governance frameworks of checks and balances to ensure that decision-making is lawful, informed by objective advice, transparent and consultative.

2 While elements of local governance arrangements are locally defined, core components are set out in a statutory framework of legal duties and financial controls overseen by the Ministry of Housing, Communities & Local Government (the Department). The Department is responsible for ensuring that this framework contains the right checks and balances, that it works, and for changing the system if necessary. The Department sets out the core elements of this system in its Accounting Officer System Statement (**Figure 1** overleaf).

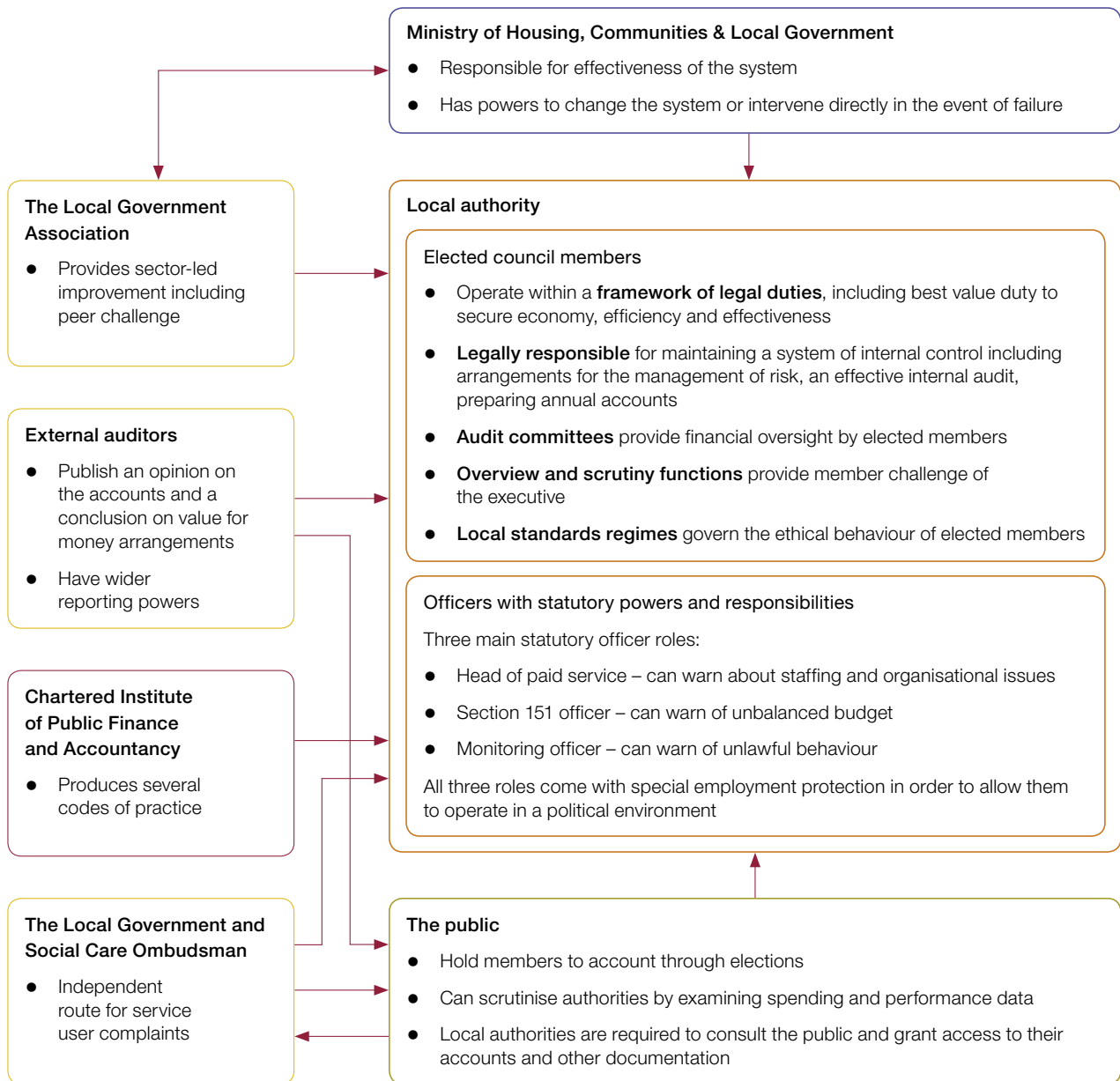
3 Good governance means that proper arrangements are in place to ensure that an authority's intended objectives are achieved. Key elements of the statutory framework ensure that authorities remain financially sustainable. These elements include:

- a statutory requirement for a balanced annual budget;
- a statutory requirement for there to be a chief finance officer (section 151 officer) and for that officer to advise on the robustness of the estimates and the adequacy of the reserves allowed for in the budget, which members must consider as they take the budget decision;
- a statutory process (section 114 notice) by which the section 151 officer can cause the council to pause and reconsider spending decisions or budgets; and
- legal requirements for councils to have a sound system of internal control, proper arrangements for managing their financial affairs and to have their statement of accounts and arrangements for value for money subject to external audit annually.

Unlike police bodies and combined authorities, there is no statutory requirement for English councils to have an audit committee. However, the position of the professional body for local authority finance is that an audit committee is required as part of proper arrangements for financial management.¹

¹ Chartered Institute of Public Finance and Accountancy, *CIPFA's Position Statement: Audit Committees in Local Authorities and Police*, CIPFA, 2018.

Figure 1
Core local governance framework



- Sets standards or defines practice
- Ministry of Housing, Communities & Local Government
- External checks and balances
- Local authority
- The public

Notes

- 1 Links with other departments and service inspectorates not shown.
- 2 There are other statutory roles in an authority but the three listed in the chart are our main focus.
- 3 Arrows show the main influences acting on local authorities' governance arrangements.

4 Our study on the *Financial sustainability of local authorities 2018* found that authorities have faced significant challenges since 2010-11 as funding has reduced while demand for key services has grown.² Governance arrangements have to be robust in this challenging context or this creates a risk that authorities will not be able to deliver their objectives. Effective governance is particularly significant as funding has diminished because authorities' objectives are now increasingly fundamental and relate, for instance, to securing their own financial survival and continuing to meet statutory service obligations. Accordingly, the focus of this study is on those governance arrangements most closely associated with financial sustainability.

5 Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Our report

6 Our report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable. The report addresses this question in three separate parts:

- Part One examines the pressures on the local governance system;
- Part Two explores the extent to which local governance arrangements function as intended; and
- Part Three assesses whether the Department is fulfilling its responsibilities as steward of the system.

2 Comptroller and Auditor General, *Financial sustainability of local authorities 2018*, Session 2017–2019, HC 834, National Audit Office, March 2018.

7 We examine the roles of statutory officers and arrangements for internal and external checks and balances. Given the scale and scope of local arrangements and the lack of national data, we have focused on key elements of governance in securing financial sustainability locally instead of seeking to cover the whole system.

8 We recognise that the National Audit Office, through its responsibility for the Code of Audit Practice, is an element of the overall local governance framework. We have not examined our own role.

9 We have published a report on *Local auditor reporting in England 2018*.³ Some of the analysis in the *Local auditor reporting in England 2018* report overlaps with elements of the analysis contained in this report on *Local authority governance*. However, the former report covers 495 local government bodies and focuses purely on the outputs of local auditors and the way these have been used by local bodies and departments. In contrast, this report on governance focuses solely on the 353 principal councils and examines authorities' views on the scope and contribution of local external audit as part of their overall governance arrangements.

Key findings

Challenges to local governance arrangements

10 Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance. External auditors responding to our survey indicated that risk profiles were higher in 37% of single tier and county councils in 2017-18 than they were in 2016-17 (paragraphs 1.10 to 1.18 and Figures 2 to 5).

³ Comptroller and Auditor General, *Local auditor reporting in England 2018*, Session 2017–2019, HC 1864, National Audit Office, January 2019.

11 Local checks and balances need to be effective in a more complex and less well-resourced context for local decision-making. Authorities' responses to the challenges they face have tested local governance arrangements. Specific challenges include elected members in some authorities having to take more locally contentious decisions to deliver savings, sometimes weighing statutory service requirements against local priorities. New delivery arrangements adopted by authorities to secure savings or generate income such as shared services, outsourcing and commercial activities can also add greater complexity to governance arrangements. Resources to support governance also fell by 34.2% in real terms between 2010-11 and 2017-18. Authorities' governance arrangements need to be robust enough to function effectively in this more challenging environment (paragraph 1.19 and Figure 6).

12 Effective governance arrangements are an important aspect of ensuring financial control at a time of financial pressure. We have said previously that the sector trends in relation to overspending and use of reserves were not financially sustainable over the medium term.⁴ Among single tier and county councils, 61.8% overspent on their service budgets in 2017-18. A loss of effective budgetary control and budget setting scrutiny were identified as significant factors in the one case since 2010-11 where the section 151 officer has had to issue section 114 notices. A governance inspection of this authority commissioned by the Secretary of State indicated that Northamptonshire County Council had lost tight budgetary control and abandoned effective budget setting scrutiny. The report concluded that in local government, "... there is no substitute for doing boring really well. Only when you have a solid foundation can you innovate" (paragraphs 1.13 and 1.20).

The operation of local governance arrangements

The role of the section 151 officer

13 While section 151 officers as a whole are positive about their ability to deliver their role, those that do not report directly to their chief executive are less positive than those that do. Our survey of these officers showed that the great majority of respondents felt they were able to discharge their responsibilities effectively. For instance, 98% agreed or strongly agreed they felt able to share challenging information with elected members. However, the survey also showed that where these officers do not report to the chief executive and have a lower status they are less positive about their engagement with their senior leadership teams and elected members across a range of measures. To a degree, this reflects a broader concern expressed by some stakeholders about the status of these officers within the current decision-making environment and their ability to bring their influence to bear on material decisions (paragraphs 2.3 to 2.9 and Figures 8 to 10).

⁴ See footnote 2.

Internal checks and balances

14 Our survey of external auditors raised concerns about the effectiveness of a range of internal checks and balances. Local authorities are required to maintain a sound system of internal control, including risk management, internal audit, and whistleblowing arrangements. Our survey of external auditors indicated that while in the majority of cases auditors agreed that suitable arrangements were in place, this was by no means universal. For instance: 27% of auditors did not agree that **audit committees** provided sufficient assurance about authorities' governance arrangements; in 18% of cases external auditors did not agree that **internal audit** was effective; and for **risk management**, and **scrutiny, challenge and debate**, 17% and 16% of auditors respectively did not agree that arrangements were effective.⁵ Our analysis of authorities' whistleblowing policies shows that they are not always kept up to date. Of those that we could find on authorities' websites, 24.2% were out of date and 18.5% advise people to contact the Audit Commission, which was abolished in 2015 (paragraph 2.17 and Figure 11).

15 There is a sizeable group of local authorities with multiple issues with these internal checks and balances. From our survey of external auditors we selected six key internal checks and balances (audit committees, ethical standards for member behaviour, internal audit, risk management, overview and scrutiny, and statutory officers). Our analysis of survey responses indicates that where auditors have concerns about these checks and balances these tend to be concentrated in particular authorities. In 50% of cases, auditors had no concerns about any of the six elements, and in 19% there was concern with only one element. However, auditors had concerns with two or more elements in 30% of authorities, including 9% with four or more. Our analysis showed that authorities with higher levels of governance issues also tended to have higher risk profiles. There is therefore a substantial body of authorities where governance arrangements are showing signs of stress in the context of the financial pressures acting on the sector (paragraphs 2.23 to 2.27 and Figure 12).

External checks and balances

16 Auditors concluded that in 2017-18 nearly one in five single tier and county councils did not have adequate arrangements in place to secure value for money. External auditors produce an annual conclusion on an authority's arrangements to secure value for money. For 2017-18, 4.6% of conclusions issued for district councils and 19.3% issued for single tier and county councils were qualified. Roughly half of the qualifications in single tier and county councils were given solely on the basis that the children's social care service had been rated 'inadequate' in an Ofsted inspection. Our survey of external auditors indicated that in several cases authorities did not take appropriate steps in response to qualified conclusions. We have said elsewhere that, while levels of qualifications are lower amongst local authorities than some other public sector bodies, the level of qualified conclusions is unacceptably high (paragraphs 2.28 to 2.32 and Figure 13).⁶

⁵ This includes auditors responding 'strongly disagree', 'disagree' and 'neither agree nor disagree'. In our focus groups, a number of which were with survey respondents, it was agreed that where respondents had responded 'neither agree nor disagree', they were not stating that a particular arrangement was dysfunctional, but they were indicating that it was not of an appropriate standard and there was room for improvement. See Appendix Two.

⁶ See footnote 3.

17 Over half of the section 151 officers from single tier and county councils responding to our survey indicated that they wanted changes to be made to external audit. Among section 151 officers from single tier and county councils responding to our survey, 51% indicated that there were aspects of external audit they would like to change. This included requests for a greater focus on the value-for-money element of the audit (26%) and less of a focus on the valuation of capital assets within auditors' work on their financial statements (14%). In our focus groups, heads of paid service, section 151 officers and internal auditors raised concerns that the contribution of external audit to local governance had been reduced recently. Frequently, they linked this to the reduction in the audit fee paid by authorities. Among respondents from single tier and county councils to our section 151 officer survey, 25% thought their audit fees for 2017-18 were 'too low'. However, 68% thought their audit fees for 2017-18 were 'about right', and 3% thought they were 'too high' (paragraphs 2.36 to 2.42 and Figures 17 to 19).

The role of the Department

18 In the Department's view, its responsibility is for the local governance system as a whole. The Department relies on this system to ensure that local authorities are accountable for acting with regularity, propriety, and value for money in the use of all their resources. The accounting officer is clear that she is responsible for ensuring that the local governance system as a whole contains the right checks and balances and is working. The Department told us that its assurance role required it to test and examine the system rather than collecting information about every individual authority. Accordingly, the Department's bi-annual advice to the accounting officer on the robustness of the system is not based on assessments of each individual authority's governance arrangements. In the Department's view, individual local failings do not represent system failure. The Department said that the identification of system failure would involve a judgement based on the nature, scale and circumstances of local failings (paragraphs 3.2 to 3.8).

19 The Department lacks the evidence base to assess rigorously whether governance issues are system-wide and this reduces the level of confidence it can have in the operation of the system. The Department has been clear that it does not collate systemic data on governance following the abolition of the Audit Commission and the associated reduction in reporting requirements on councils. It has increased its consideration of governance at some individual authorities. Using information from its monitoring of financial risk alongside additional information, the Department's reports contain information on governance failings at authorities of concern. This work draws on only one national data set containing governance information. The Department recognises that it could do more to identify systemic concerns and test elements of the system. It has made a risk-based judgement on how to prioritise its efforts and as a result has primarily but not exclusively focused on financial risks to date (paragraphs 3.6 to 3.14).

20 The Department is able to intervene both formally and informally in authorities where it has concerns about governance arrangements, but the process of engagement short of statutory intervention is not transparent.

The Department told us that there was no fixed process for advising the Secretary of State about the use of formal intervention powers, and that while there is internal guidance this does not constitute criteria by which to judge potential interventions. The Department has made high-level public statements about its process of engagement with authorities where it has formally intervened. However, the Department considered there is a need for a 'safe space' for decision-making about whether and how to engage. This includes making decisions about lower-level engagement with individual authorities, or about non-statutory intervention such as independent improvement panels. The Department believes that its approach gives it flexibility, reduces the risk of legal challenge, and that privacy also benefits the local authorities themselves. However, it also means that the scale and effectiveness of its engagement in the sector is not open to public scrutiny or challenge. We cannot fully assess the operation of the system in this context (paragraphs 3.15 to 3.21).

21 There is no clear leader that drives coordinated change across the local governance system. Individual parts of the system are led by other organisations, but the Department's network is fragmented and there is no clear overall system leadership. The Department is engaged with all the actors with responsibilities in the governance framework to differing degrees, from ad hoc meetings to a Memorandum of Understanding in one instance. The Department has set out how the Framework functions via the Accounting Officer System Statement. However, it is not clear how the individual players come together to consider tensions, gaps in the systems, or resolve disputes about roles or sharing information. The Department understands the need for it to be more active in this space to provide leadership to drive coordinated change across the system (paragraphs 3.22 to 3.25 and Figure 20).

Conclusion on value for money

22 Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network.

Recommendations

23 As steward of the system the Department has a responsibility for assuring itself that there is an effective local governance system in place.

- a** The Department should work with local authorities and stakeholders to assess the implications of, and possible responses to, the various governance issues we have identified, including:
- the status of section 151 officers and the efficacy of their statutory reporting arrangements;
 - the effectiveness of audit committees, and how to increase the use of independent members;
 - the effectiveness of overview and scrutiny functions and ways to enhance their impact; and
 - the sustainability and future role of internal audit.
- b** The Department should address the system-wide gaps in its evidence base on governance.
- c** The Department should set out its expectations of network partners and how they will work together to address the current weaknesses in local governance arrangements.
- d** The Department, working with relevant organisations and delegating where appropriate, should lead the sector in considering the issues and concerns raised about external audit in this report to establish whether concerns in certain parts of the sector over the contribution of audit genuinely relate to audit:
- Where concerns genuinely relate to audit the Department should work with bodies with responsibility for external audit within the governance framework, taking into account their ongoing or planned activity, to address any substantive issues.
 - Where concerns do not in fact relate to audit the Department should work with local authorities and other bodies in the governance system to identify how these needs and requirements can be addressed.
- e** The Department should examine ways of introducing greater transparency and openness in relation to its formal and informal interventions in local authorities.
- f** The Department should adopt a stronger leadership role in relation to overseeing and coordinating the network of organisations managing key aspects of the governance framework.

Part One

Challenges to local authority governance

1.1 This section looks at the structure of local governance arrangements and the challenges these arrangements have faced recently.

Purpose and structure of local governance arrangements

The purpose of local authority governance

1.2 Governance is, “the way in which organisations are directed, controlled and led. It defines relationships and the distribution of rights and responsibilities among those who work with and in the organisation, determines the rules and procedures through which the organisation’s objectives are set, and provides the means of attaining those objectives and monitoring performance. Importantly, it defines where accountability lies throughout the organisation.”⁷

1.3 Good governance in local authorities ensures that decision-making is lawful, informed by objective advice, transparent, and consultative.⁸ It is crucial in achieving value for money and securing financial sustainability. Partly, the controls within governance arrangements are in place to prevent serious failings like poorly informed or unnecessarily risky decisions, fraud or other criminal behaviour, spending public money for personal benefit, or persecution of whistle blowers.

The framework for local authority governance

The current framework

1.4 Local authorities are led by local politicians who are democratically accountable to their electorates. Authorities are responsible for their own spending decisions, and, in general, value for money is defined by elected members depending on local needs rather than in line with national targets.

⁷ HM Treasury and Cabinet Office, *Corporate governance in central government departments: code of good practice*, HM Government, p.9, April 2017.

⁸ Chartered Institute of Public Finance and Accountancy and Society of Local Authority Chief Executives, *Delivering good governance in local government: framework*, CIPFA, April 2016.

1.5 However, authorities' governance arrangements sit within a statutory framework of legal duties and financial controls overseen by the Ministry of Housing, Communities & Local Government (the Department) to ensure proper democratic accountability, transparency, public scrutiny and audit. An important aspect of this is the best value duty that requires each authority to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness".

1.6 The Department's accounting officer is responsible for ensuring that the framework contains the right checks and balances and is working. The framework has a range of elements (Figure 1). This study concentrates on three key overlapping elements.

- a Statutory roles:** authorities are required to have officers with specific statutory responsibilities for **finance and spending** (section 151 officer), **lawful behaviour** (monitoring officer) and the **overall functioning of the organisation** (head of paid service). To ensure that councils follow the statutory codes, guidance and requirements, these officers have statutory mechanisms for bringing concerns to the attention of their council, and for requiring councils to consider their decisions and actions publicly. People in these roles have special employment protection to enable them to 'speak truth to power'.
- b Internal checks and balances:** councils are required to maintain a **system of internal control** including arrangements for risk management, internal audit and whistleblowing. Members' oversight of these arrangements, independently of the executive political leadership, is by an audit committee or equivalent. Members challenge policy decisions through committee arrangements or overview and scrutiny functions.
- c External checks and balances:** external auditors provide an **opinion on the annual accounts**, and a **conclusion on the council's arrangements for securing value for money**. Auditors have a range of other powers to bring matters to public attention and the consideration of the council. The Local Government and Social Care Ombudsman examines individual complaints. The Local Government Association's (LGA) voluntary peer challenge processes provide an external perspective for councils.

Revisions to the governance and accountability framework

1.7 From 2010 to 2015 the government's approach was to give authorities greater freedom over local decision-making by stripping back the previous national framework. The government abolished the Audit Commission; reformed the external audit regime; stopped a number of central inspections; and reduced data reporting by authorities to government.⁹ They also abolished the Standards Board for England and moved to local arrangements for overseeing standards of members' behaviour.¹⁰

1.8 The Department is still able to investigate and intervene where it has concerns about an authority's compliance with its best value duty. The Secretary of State has the power to order an investigation, and can intervene locally if failure is identified.

Pressures on local authority governance

1.9 The sector has faced financial and demand challenges since 2010-11. These have generated new behaviours and activities as authorities have tried to make savings and raise new income. This has created a more testing environment for governance arrangements.

Challenges

1.10 Our report *Financial sustainability of local authorities 2018* found that authorities have faced significant challenges in recent years.¹¹ These included a reduction in spending power (government grant plus council tax) of 28.6% in real terms from 2010-11 to 2017-18. Demand in key service areas has also increased, including a 9.5% increase in the estimated population of working age adults in need of care and a 14.3% increase in the estimated population of older adults in need of care between 2010-11 and 2016-17. Updated analysis found the number of looked after children increased by 15.1% from 2010-11 to 2017-18. The report also highlighted the uncertainty in the sector created by the lack of a long-term financial plan to secure financial sustainability.

Responses

Identifying savings

1.11 In response to these challenges authorities have made significant savings. Spending on services by authorities fell by 14.7% in real terms between 2010-11 and 2017-18 (**Figure 2**). Within their savings programmes members have prioritised dwindling resources to meet growing demand for social care.

9 Department for Communities and Local Government, *Local Audit and Accountability Act 2014: Local audit impact assessment*, DCLG, September 2014.

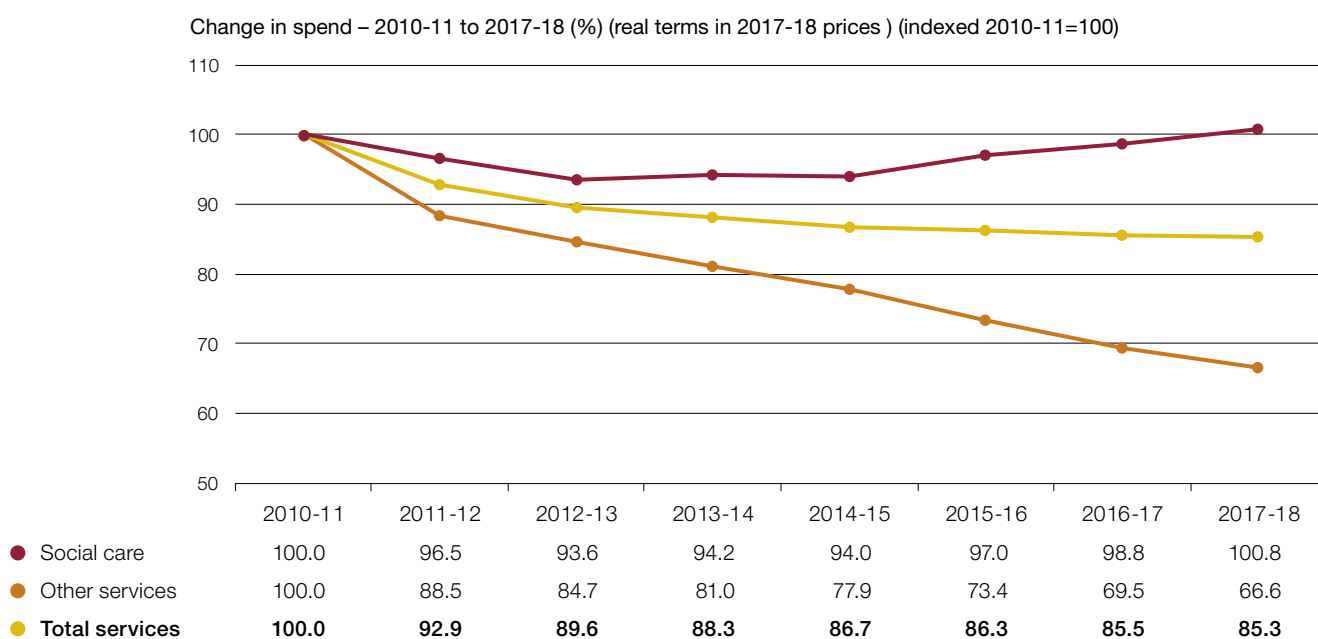
10 Department for Communities and Local Government, *Localism Bill: the abolition of the Standards Board regime, clarification of the law on predetermination and the requirement to register and declare interests – Impact assessment*, DCLG, January 2011.

11 Comptroller and Auditor General, *Financial sustainability of local authorities 2018*, Session 2017–2019, HC 834, National Audit Office, March 2018.

Figure 2

Change in revenue service spending 2010-11 to 2017-18

Local authorities have reduced service spending since 2010-11

**Notes**

- 1 Other services includes planning and development, cultural services, housing (non-Housing Revenue Account), central services, environmental services, and highways and transport. It excludes spend on education, fire and rescue, police services and 'other services'.
- 2 Social care spending includes adult and children's social care. It includes transfers from health bodies. For continuity purposes it excludes spend on Sure Start and services for young people.
- 3 Data shown is for net current expenditure.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government and NHS Digital data

1.12 Savings programmes can force members to make difficult and potentially contentious decisions that can be challenged legally, for example where they decide to cut back certain services. From 2010-11 to 2016-17 the number of libraries reduced by 10.3% and the number of households receiving at least a weekly domestic waste collection service fell by 33.7%.

1.13 Delivering savings through efficiencies, shared services, outsourcing or by transforming the way a service is delivered can protect service levels. As with all means of delivering savings, these methods can inject risk into the system as they may not achieve the intended savings. It is notable that in 2017-18 61.8% of single tier and county councils overspent their service budgets. We have said previously that the sector trends in relation to overspending and use of reserves were not financially sustainable over the medium term.¹²

¹² See footnote 11.

Generating new income

1.14 Some authorities have made commercial investments to generate new income and offset reductions in government funding. The acquisition of land and existing buildings, which includes spending by authorities on commercial properties as well as for broader economic regeneration purposes, now represents 24% of authorities' total spending on fixed assets (**Figure 3**). Local authorities' revenue profits from their full range of commercial and trading activities increased by 36.3% in real terms to £404 million from 2010-11 to 2017-18.

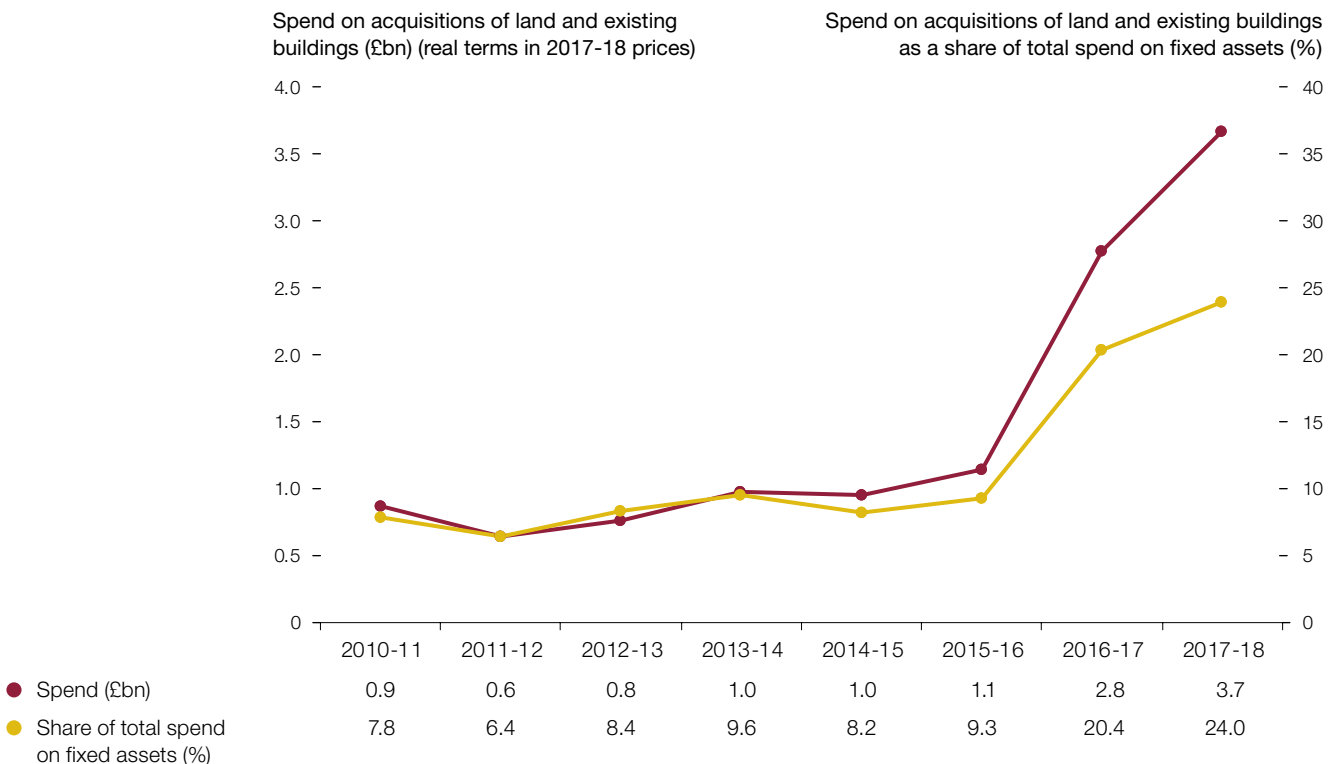
Greater risk

1.15 Our survey of external auditors indicated that some authorities now have high risk profiles. This was particularly the case for single tier and county councils. Auditors classified 22% of these as having a high risk profile and 66% as medium risk.¹³

Figure 3

Local authority spending on the acquisition of land and existing buildings

There has been significant growth in local authority spending on land and existing buildings, some of which is for commercial investment



Notes

- 1 Figures have been rounded to one decimal point. Spend increased from 2015-16 to 2017-18 by £2.53 billion.
- 2 Excludes spend on education services, public health, police services and fire and rescue.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data

¹³ This relates to the overall risk to an authority being able to deliver its objectives. It includes all aspects of risk expected to be found in a corporate risk register or risk management strategy.

1.16 Auditors indicated that financial pressures and the risks associated with delivering transformation and savings programmes were the most significant reasons why some authorities were viewed as having high or medium risk profiles (**Figure 4**). Ultimately, these factors have the potential to make an authority and its services financially unviable.

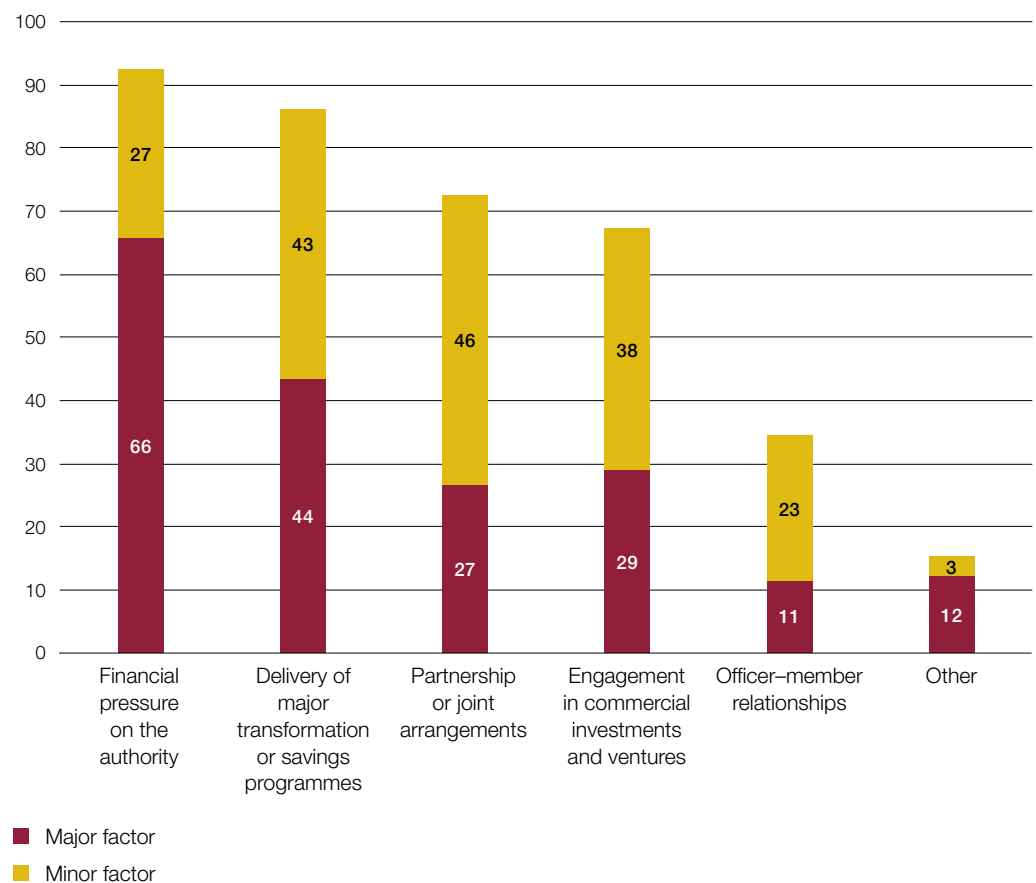
1.17 Auditors also viewed partnership arrangements and commercial activities as drivers of risk (Figure 4). These activities present lower-level risks as they may fail to deliver their expected outcomes but are less likely to affect overall financial viability.

Figure 4

Factors contributing to high and medium risk profiles in local authorities in 2017-18

External auditors have identified financial pressure as the most significant risk factor currently facing local authorities

Percentage of respondents



Notes

- 1 N=131.
- 2 Includes all authorities classified as having high or medium risk profiles in the auditor survey.
- 3 Classification of factors as either 'major' or 'minor' factors was by respondents themselves.

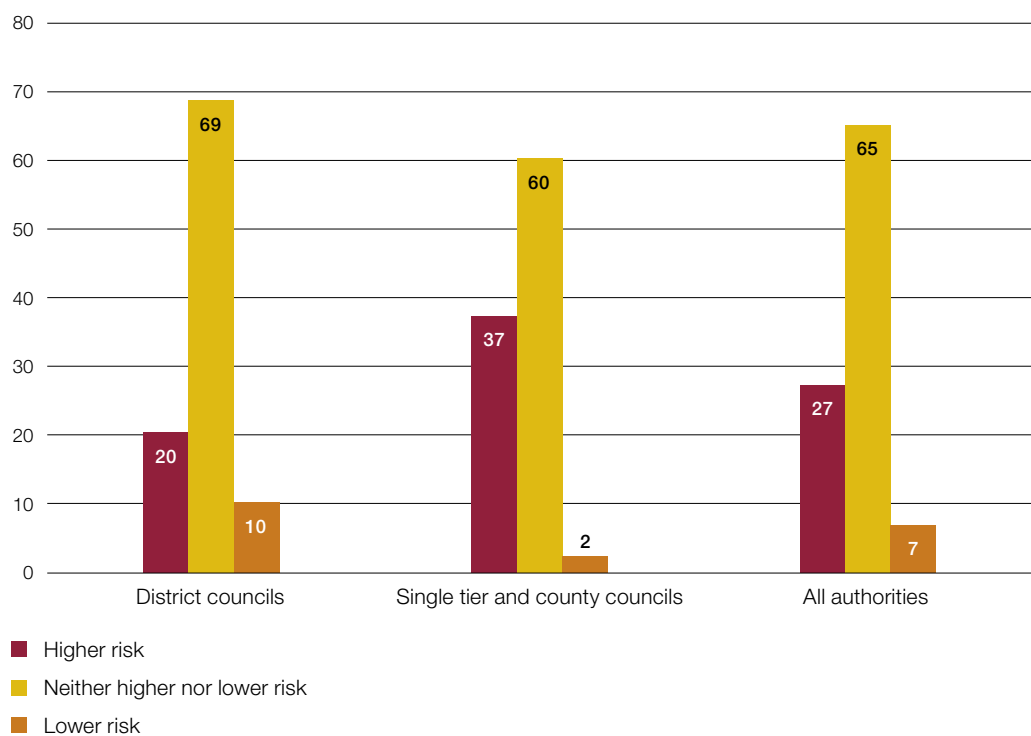
Source: National Audit Office analysis of external auditor survey data

1.18 External auditors also felt that risk is increasing within the system (**Figure 5**). Auditors responding to our survey felt that risks were higher in 37% of single tier and county councils in 2017-18 relative to 2016-17.

Figure 5
Auditors' views on change in risk profiles 2016-17 to 2017-18

External auditors feel that overall levels of risk are increasing in many authorities

Change in risk profile 2016-17 to 2017-18 (percentage of respondents)



Notes

- 1 All authorities: N=202. District councils: N=118. Single tier and county councils: N=83. (One respondent did not identify authority type.)
- 2 Numbers may not sum to 100 due to rounding and 'don't know' responses, which are included in the denominator but not shown in the chart.

Source: National Audit Office analysis of external auditor survey data

Implications for governance

1.19 Our interviews and focus groups indicated that the challenges faced by authorities and their responses have tested local governance to varying degrees across different authorities depending on their organisational cultures (**Figure 6** overleaf). Local governance arrangements need to be sufficiently robust to remain effective in this context to ensure that spending provides value for money and stays within available resources.

1.20 These arrangements are a crucial element of ensuring financial sustainability. The chief finance officer for Northamptonshire County Council issued separate section 114 notices in February and July 2018, indicating that the authority was at risk of spending more than the resources it had available, which would be unlawful. A governance inspection of the authority commissioned by the Secretary of State indicated that the authority had:

- lost tight budgetary control, with repeated service overspends and failure to deliver savings; and
- abandoned effective budget setting scrutiny, with the scrutiny function given too little time and information to scrutinise budgets effectively.

The report concluded that in local government, "...there is no substitute for doing boring really well. Only when you have a solid foundation can you innovate."¹⁴

¹⁴ Max Caller CBE, *Northamptonshire County Council Best Value Inspection: January–March 2018*, Ministry of Housing, Communities & Local Government, March 2018.

Figure 6

Challenges for local authority governance

| Type of challenge | Details |
|------------------------------------|---|
| Higher risk profiles and appetites | Risk profiles and appetites are higher due to budget pressures and because some authorities engage in transformation programmes and commercial activities. This places pressure on authorities' risk management arrangements that need to evaluate risks and mitigate any negative impact should it materialise. |
| More difficult decisions | Members in some authorities are having to take more difficult decisions to deliver savings, sometimes balancing statutory service requirements against local priorities. Relationships between senior managers and members are being tested in this context. |
| Greater local challenge | Decisions on savings are being challenged by local groups and service users. This places a premium on ensuring that the decision-making and consultation processes are sufficiently robust to survive potential legal challenges. |
| Maintaining transparency | An increase in decision-making on sensitive issues, for instance in relation to commercial activity or where the decision is locally contentious, is challenging the transparency of local decision-making. In our focus groups external and internal auditors stressed the need for more informative reports, and less use of commercial exemptions. |
| Demand for new skills | The growth of new activities, particularly in relation to commercial investment, is challenging the skills bases of authorities. Internal auditors noted the pressure this was putting on staff designing these schemes, and on internal auditors' ability to understand risk in these schemes. Monitoring officers noted the challenge of maintaining their skills in the context of growing commercialism. |
| Great complexity | Shared services, outsourcing and commercial activities can add complexity to authorities' governance arrangements. Authorities need to ensure that governance and accountability are clear at the point these arrangements are entered into, and that ongoing oversight is effective. |
| Greater immediacy | Some interviewees reported a pressure to move fast and for initiatives to deliver quickly because of financial pressure. This can lead to governance being viewed as a 'blocker' and governance arrangements not being developed at the start of particular initiatives. |
| Reduced independent oversight | While there was no desire to return to the previous oversight framework, some stakeholders and focus group participants noted that they had less independent information and challenge to support their decision-making. |
| Reduced corporate resources | Spend on the corporate and democratic support fell by 34.2% overall in real terms between 2010-11 and 2017-18. This includes a 39.3% reduction for single tier and county councils, and 21.2% for district councils. In our survey of section 151 officers only 77% agreed or strongly agreed that their finance function was sufficiently resourced. Some 82% agreed or strongly agreed that their internal audit function was sufficiently resourced. |

Source: National Audit Office

Part Two

The operation of local governance

2.1 This part examines how key local governance arrangements function. Our analysis focuses on the roles of statutory officers and internal and external checks and balances.

Statutory roles

Three core roles

2.2 The three statutory roles of **section 151 officer**, **monitoring officer** and **head of paid service** are crucial in ensuring that decision-making reflects relevant codes, guidance and requirements. They also have statutory mechanisms for bringing concerns to the attention of their council (**Figure 7**).

Figure 7

Statutory officer mechanisms for protecting good governance

| | Statutory officer | Statutory mechanism | Consequence |
|---|---|---|---|
| Risk of unbalanced budget or unlawful expenditure | Section 151 officer (chief finance officer) | Report under section 114 of the Local Government Finance Act 1988 | Meeting of full council within 21 days to consider the report. The actions or decisions covered by the report cannot be pursued or taken until this is done. |
| Risk of unlawful action or maladministration | Monitoring officer | Report under section 5 of the Local Government and Housing Act 1989 | Meeting of full council within 21 days to consider the report. The actions or decisions covered by the report cannot be pursued or taken until this is done. |
| Concerns about the number and grades, management, or organisation of staff to deliver the authority's functions | Head of paid service | Report under section 4 of the Local Government and Housing Act 1989 | Meeting of full council within three months to consider the report. |

Source: National Audit Office

2.3 Our discussions with stakeholders from these groups indicated that these roles were thought to be more challenging as decision-making has become more pressured. There was a perception, particularly in relation to heads of paid service and section 151 officers, that turnover rates had increased as a result. However, there are no independent data on this.

2.4 Several interviewees and focus group participants raised concerns that in some cases, section 151 and monitoring officers' roles were being held by officers at lower grades as authorities changed their senior management structures. They allege that this weakens the officers' ability to influence material decisions. However, the Local Government Association (LGA) told us that there was no evidence that this was the case.

The position of section 151 officers

2.5 We surveyed section 151 officers directly. The survey indicates that 89% of respondents from single tier and county councils are on their senior leadership team, and 82% report to the chief executive or leader (**Figure 8**). We have no data to assess change over time.

The effectiveness of section 151 officers

2.6 Our survey suggests that despite the concerns raised in our interviews, the great majority of respondents were confident in their ability to engage with and provide advice to members and the senior leadership team (**Figure 9** on page 26). For instance, 98% of respondents agreed or strongly agreed that they were able to share challenging information with elected members. However, there are a few instances where arrangements are not working. For instance, in 6% of cases the section 151 officers could not agree that their advice was given serious consideration by the senior leadership team.¹⁵

2.7 However, further analysis (**Figure 10** on page 27) suggests that there are differences in the views of section 151 officers depending on whether they report directly to the chief executive or to other members of the senior leadership team. Section 151 officers who do not report to the chief executive are less positive across our measures of engagement with the senior leadership team and members. For instance, 63% of respondents that report directly to their chief executive strongly agreed that they were able to share challenging information with elected members, compared to only 24% of respondents that did not report directly to their chief executive. To a degree, this reflects the view of some stakeholders that section 151 officers operating at lower grades may be less able to bring influence to bear on material decisions. This statistical relationship is not necessarily causal, however.

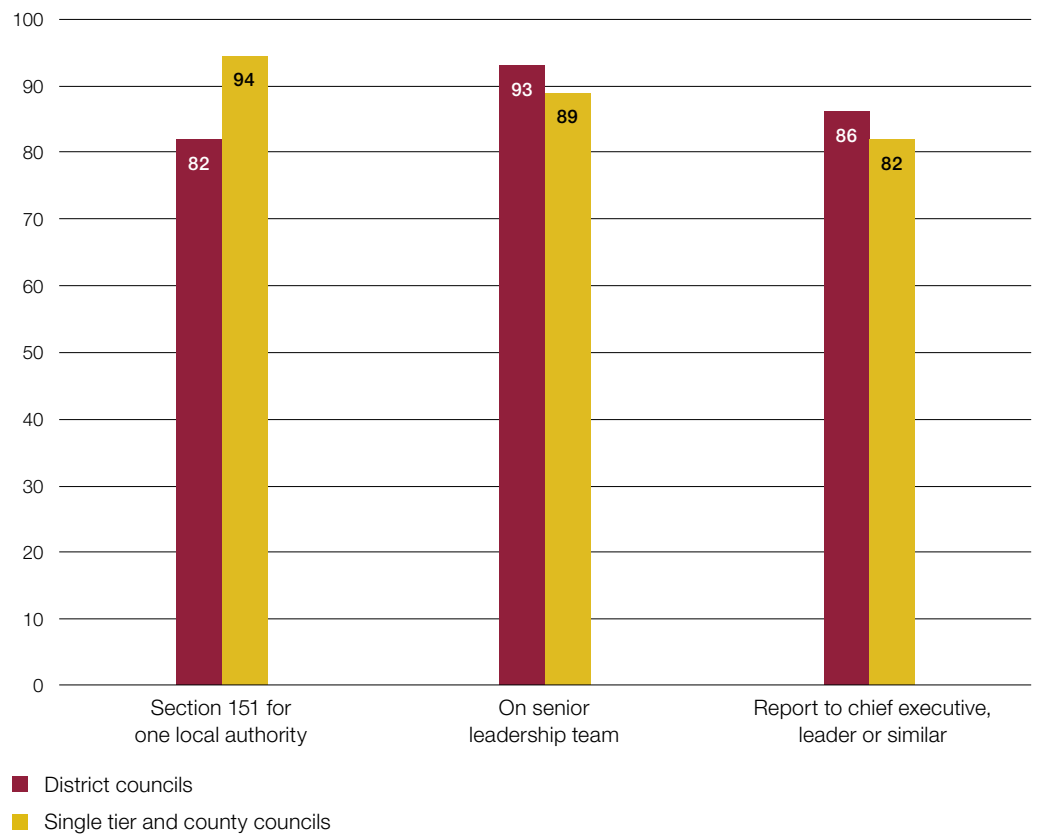
¹⁵ This includes respondents answering 'neither agree nor disagree'.

Figure 8

Employment and reporting arrangements for section 151 officers in 2018-19

The great majority of section 151 officers are on their senior leadership team and report to their chief executive

Percentage of respondents



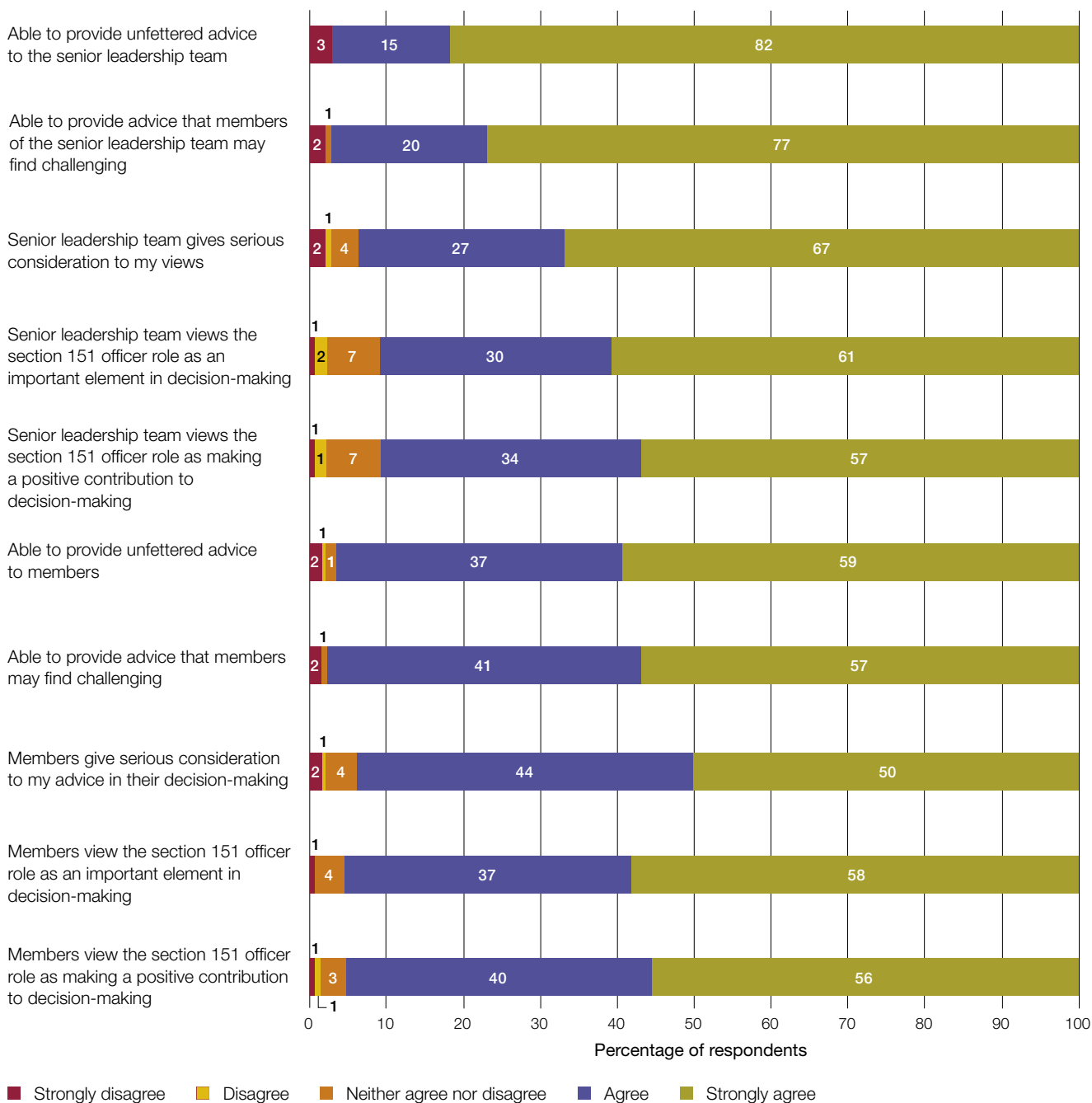
Note

1 District councils: N=72. Single tier and county councils: N=72.

Source: National Audit Office survey of section 151 officers

Figure 9
Section 151 officers' views on their role – all local authorities

In general, section 151 officers are very positive about their ability to engage with their senior leadership team and elected members



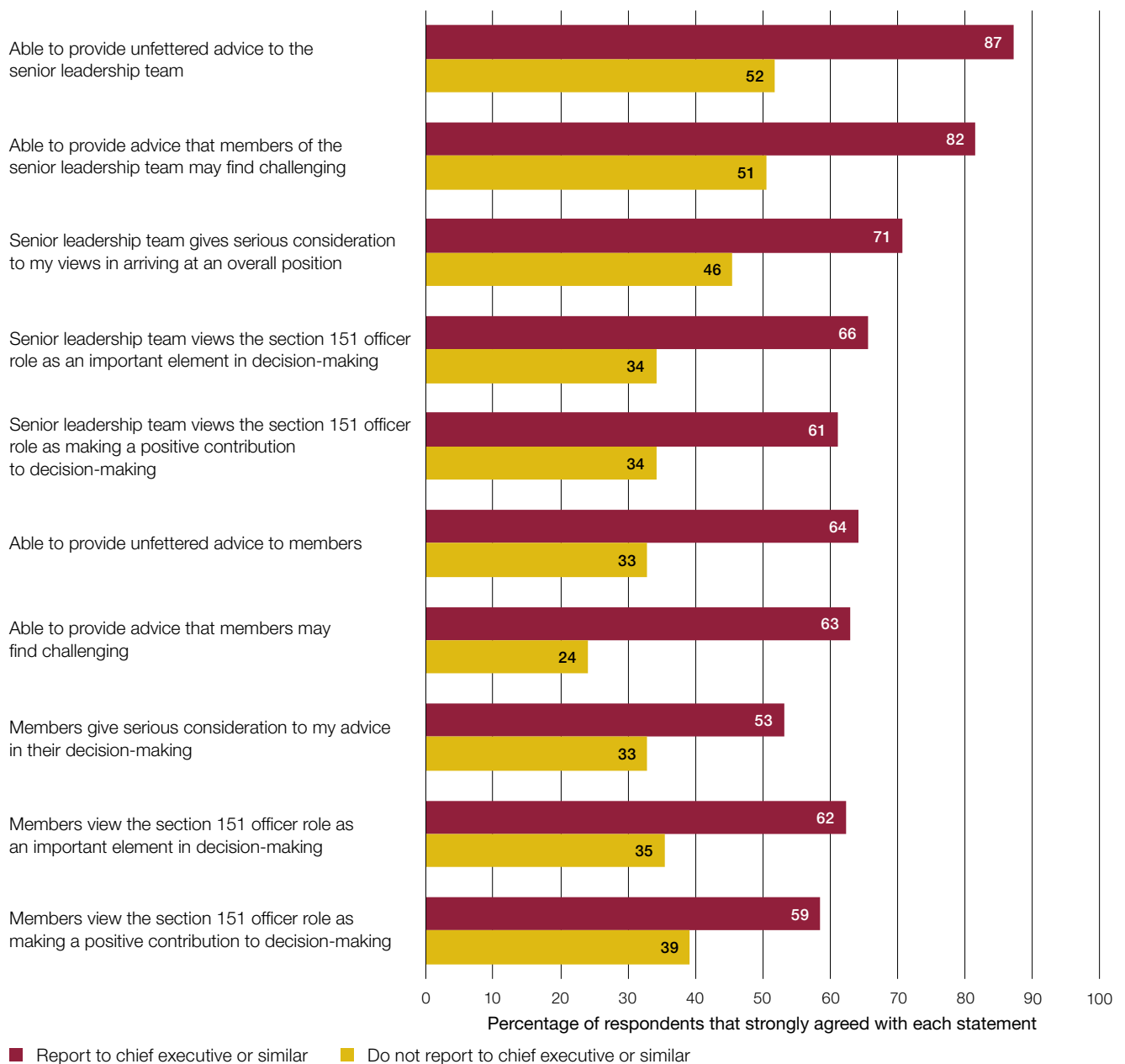
Notes

- 1 N=144.
- 2 To reflect differences in response rates from different types of authority (district council or single tier and county council), survey responses have been weighted back to the distribution of authorities by type in the population. See Appendix Two.
- 3 Bar lengths are based on unrounded data but data labels have been rounded. Some sets of data labels may not sum to 100.

Figure 10

Differences between section 151 officers reporting and not reporting to the chief executive

Section 151 officers that do not report to their chief executive are slightly less positive than those who do

**Notes**

- 1 N=144. (Report to chief executive: N=121. Do not report to chief executive: N=23).
- 2 To reflect differences in response rates from different types of authority (district council or single tier and county council), survey responses have been weighted back to the distribution of authorities by type in the population. See Appendix Two.
- 3 Chart shows percentage of each group that 'strongly agree' with each statement.
- 4 Differences between the two groups are statistically significant at 0.05 for all statements with the exception of the final and third from final statements which are statistically significant at 0.10.
- 5 'Chief executive or similar' includes all respondents reporting to their chief executive or equivalent senior officer alongside a small number who report directly to their leader.

Section 151 officers' advice

2.8 A theme in our interviews and focus groups with section 151 officers was that, while appropriate governance arrangements might be in place for them to share advice, some felt they were not always listened to by the senior leadership team or members. The Chartered Institute of Public Finance and Accountancy (CIPFA) is currently developing a financial management code and considering the development of a local authority 'financial resilience index'. Both are intended to add extra weight to section 151 officers' advice.

2.9 Section 151 officers already have options available to them to ensure that their advice is heeded, including section 25 reports: statutory reports on the robustness of the budget and reserves, which the council must have regard to in budget setting. Section 151 officers can also issue section 114 notices that require the council to pause and publicly reconsider spending decisions or budgets. However, some section 151 officers we spoke to felt that section 25 reports did not carry sufficient weight as they were only signed off by the section 151 officer rather than other senior officers. Section 114 notices were seen by some as 'career ending', and some considered there was a need for an intermediate intervention.

Internal checks and balances

Overview

2.10 Councils are required to maintain a sound system of financial management and internal control, including risk management, internal audit, and whistleblowing arrangements. Members sit on the audit committee or equivalent, which is meant to provide full council with independent assurance on these arrangements. Members challenge policy decisions and strategic direction through committee arrangements or overview and scrutiny functions.

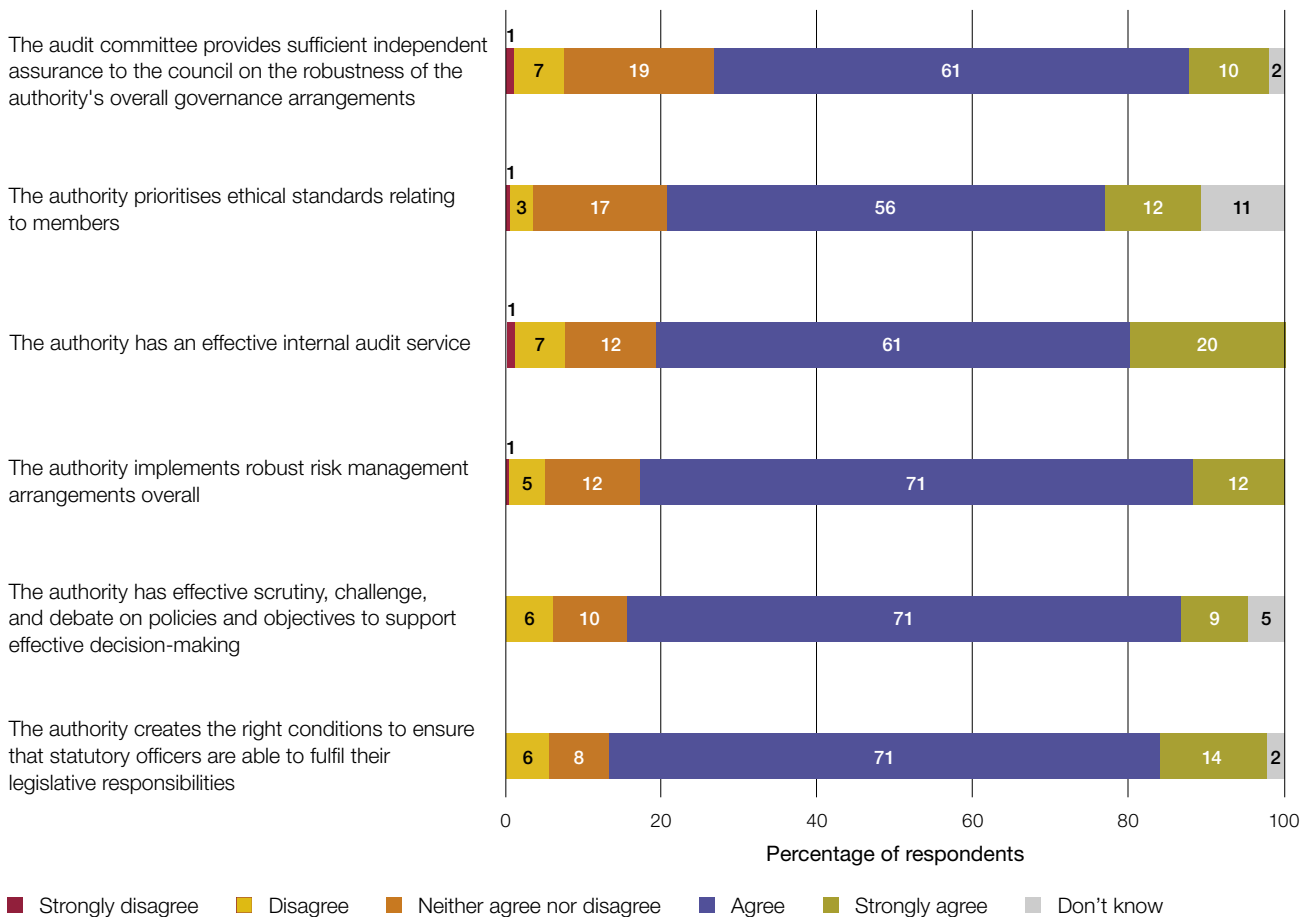
2.11 Our survey of external auditors indicated that while in the majority of cases auditors agreed that suitable arrangements were in place, this was by no means universal (**Figure 11**, and Figures 24 to 29 in Appendix Three).¹⁶

¹⁶ Where an auditor has responded 'neither agree nor disagree' to a question, this indicates that the auditor has not been able to provide assurance that a suitable arrangement is in place. While the issue in question is not dysfunctional there is nonetheless room for improvement.

Figure 11

Auditors' views on key governance arrangements in 2017-18 – all authorities

In the majority of cases, but by no means all, external auditors felt that key governance arrangements were effective



Notes

1 N=197.

2 Bar lengths are based on unrounded data but data labels have been rounded. Some sets of data labels may not sum to 100.

Source: National Audit Office survey of external auditors

Analysis by theme

Audit committees

2.12 The survey raised questions about the efficacy of audit committees in some authorities. Only 71% of auditors agreed or strongly agreed that the committee fulfilled its core function of providing independent assurance on the authority's governance arrangements. Other aspects of audit committees, such as training of members and their knowledge of their roles, were also issues (Figures 24 and 25). Public Sector Audit Appointments Ltd, the body responsible for appointing almost all auditors, told us that it had recently set up a local authority audit quality forum with one of the objectives being to improve the work of audit committees.

2.13 Our focus groups with internal and external auditors stressed the benefits to audit committee effectiveness of having independent committee members, ideally with one as the chair. Our review of all local authorities' websites indicates that only 32.7% have an independent member and only 5.4% an independent chair.¹⁷

Risk management

2.14 Risk management means identifying, evaluating and controlling risks in order to manage threats to achieving the authority's objectives. Some 83% of auditors agreed or strongly agreed that robust overall risk management was in place in their authorities (Figure 11). However, the proportion agreeing was lower in relation to risk management specifically for partnerships and joint arrangements, and also for commercial ventures (Figure 26).

Internal audit

2.15 Internal audit examines, evaluates and provides independent assurance on authorities' control environments. Only 81% of auditors agreed or strongly agreed that these arrangements were effective in their authorities (Figures 11 and 27).¹⁸ Section 151 officers we spoke to did not raise specific concerns in relation to internal audit, though they did recognise that their resources had been reduced.

2.16 Our internal auditor focus groups stressed the resource pressures they were under and the complexity of commercial and partnership arrangements they were now required to audit. They also said that their role had widened as a range of additional functions such as insurance and fraud were passed to them as authorities' corporate resources diminish. Some focus group participants indicated that issues such as policy reviews and information governance were "slipping through the cracks" and having to be picked up by internal audit.

¹⁷ Independent members are recommended in The Chartered Institute of Public Finance and Accountancy's best practice guidance: *Audit committees: practical guidance for local authorities and police*, 2018, chapter 7.

¹⁸ Our assessment of internal audit was based on our surveys of external auditors and section 151 officers. We did review a sample of 50% of heads of internal audit annual reports. However, the wide variation and lack of comparability in the terminology used in the audit opinion meant that it was not possible to use these documents to assess performance across the sector with sufficient certainty for us to report it.

2.17 Our review of whistleblowing policies provides potential evidence of basic governance activities not being addressed. Authorities are expected to produce these policies, keep them up to date and make them publicly available. However, in 15.6% of cases we could not find these policies on authorities' websites. Of the policies we could find, 24.2% were out of date and 18.5% advise people to contact the Audit Commission, which was abolished in 2015.

Overview and scrutiny

2.18 Member challenge of policy decisions takes place either through committee arrangements or in the majority through overview and scrutiny functions. Eighty per cent of auditors agreed or strongly agreed that arrangements were effective in their authority (Figure 11). Sixty one per cent of section 151 officers viewed these arrangements as effective when delivered through overview and scrutiny functions, and 75% felt they were effective when delivered through committee structures (Figure 28).

2.19 Discussions with some stakeholders and focus groups indicated that overview and scrutiny functions could be or were politicised and that officer support functions had faced funding reductions. This latter point was reflected in the 2017 report by the Communities and Local Government select committee.¹⁹ This also raised concerns about the extent to which financial and performance information was made available to scrutiny committees.

Local standards regimes

2.20 Following the abolition of the Standards Board for England in 2012, authorities are required to produce a code of conduct for elected members. Some sixty-eight per cent of external auditors agreed or strongly agreed that their authority prioritised ethical standards for members.

2.21 Some of our interviews and focus groups with section 151 officers, and external and internal auditors indicated that the nature of local standards arrangements contributed to the tone of an organisation's culture. Possible evidence of this is that section 151 officers in our survey who strongly agreed their authority's standards regime was robust were also more positive about their ability to engage with their senior leadership teams and members (Figure 29). This statistical relationship is not necessarily causal.

2.22 A frequent message from our stakeholder interviews and focus groups with officers was that the sanctions available to local standards regimes were not sufficiently strong. In contrast, however, the LGA was clear that in their view current sanctions are sufficiently robust. The Ministry of Housing, Communities & Local Government is waiting for the Committee on Standards in Public Life to report on its review of local government ethical standards.

¹⁹ HC Communities and Local Government Committee, *Effectiveness of local authority overview and scrutiny committees*, First Report of Session 2017–2019, HC 369, December 2017.

Analysis by local authority

Distribution of governance concerns

2.23 Our analysis of six key elements of internal control (these individual elements are set out in Figure 11) indicates that where auditors have concerns these tend to be concentrated in particular authorities.²⁰ In 50% of cases, auditors had no concerns about any of the six elements. A further 19% of respondents had concerns with one of the six elements. However, 30% of authorities had two or more concerns, including 9% with four or more.

2.24 Authorities with no or low levels of concern were less likely to have had their conclusion on their value-for-money arrangements qualified in 2017-18. Only 6% of authorities with no concerns were qualified, rising steadily to 38% for those with four or more.

2.25 This indicates that while authorities with more concerns are more likely to be qualified, a number are still not qualified despite having a range of governance issues. An unqualified conclusion does not mean that governance does not need to improve.

Drivers of concerns about governance

2.26 Authorities where auditors had concerns about multiple aspects of governance tended to have a higher risk profile (**Figure 12**). However, a proportion of authorities with two or more concerns were classified as low risk by their auditors. Equally, some with high risk profiles had only one or no governance concerns.

2.27 This pattern may reflect a theme from some of our focus groups on the importance of authorities' culture in terms of the tone set by senior managers and members and their openness to challenge. Strong cultures may be able to reduce governance pressures despite higher levels of risk, while weak cultures may generate governance issues even where risk is low.

External checks and balances

External audit

2.28 External auditors provide an opinion on the accounts, and a conclusion on authorities' arrangements for securing value for money. Auditors have a range of other powers to bring matters to public consideration, such as public interest reports and statutory recommendations.

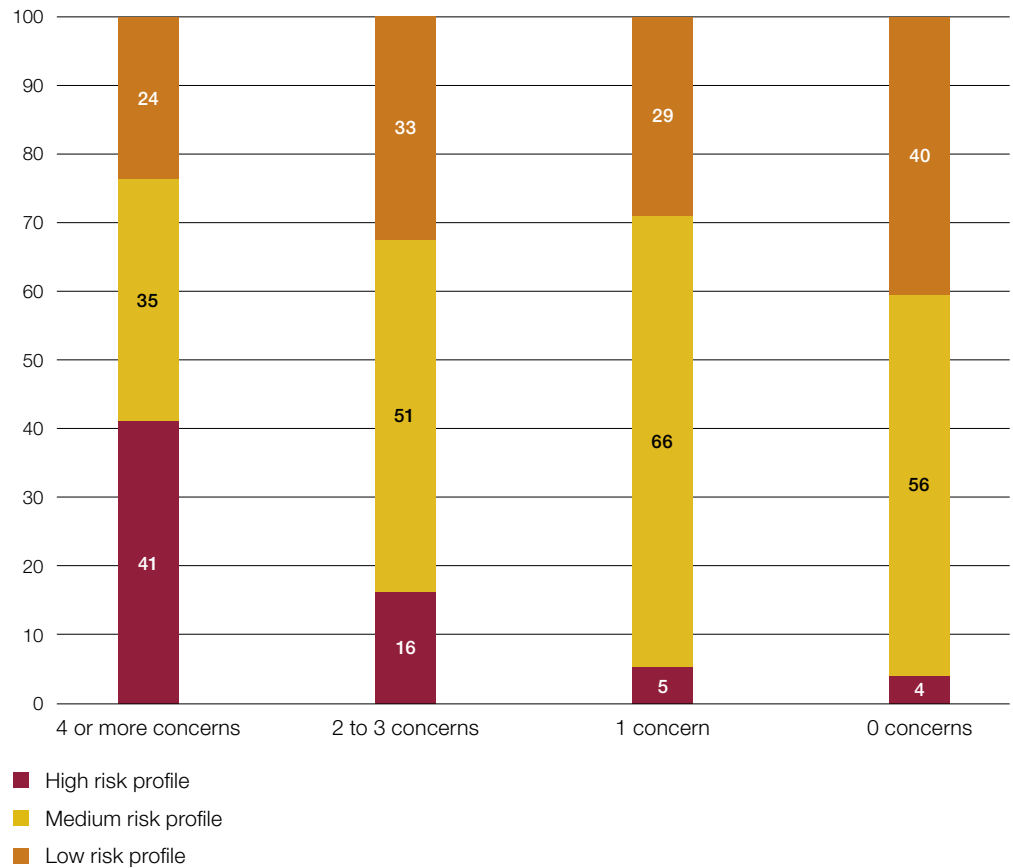
²⁰ A 'concern' is any instance where an auditor responded 'strongly disagree', 'disagree' or 'neither agree nor disagree'. In each case the auditor has failed to provide assurance that arrangements are appropriate, and has indicated that there is room for improvement.

Figure 12

The relationship between governance concerns and risk profile

Local authorities with higher risk profiles tend to have more governance concerns

Percentage of respondents



Note

1 N=197.

Source: National Audit Office survey of external auditors

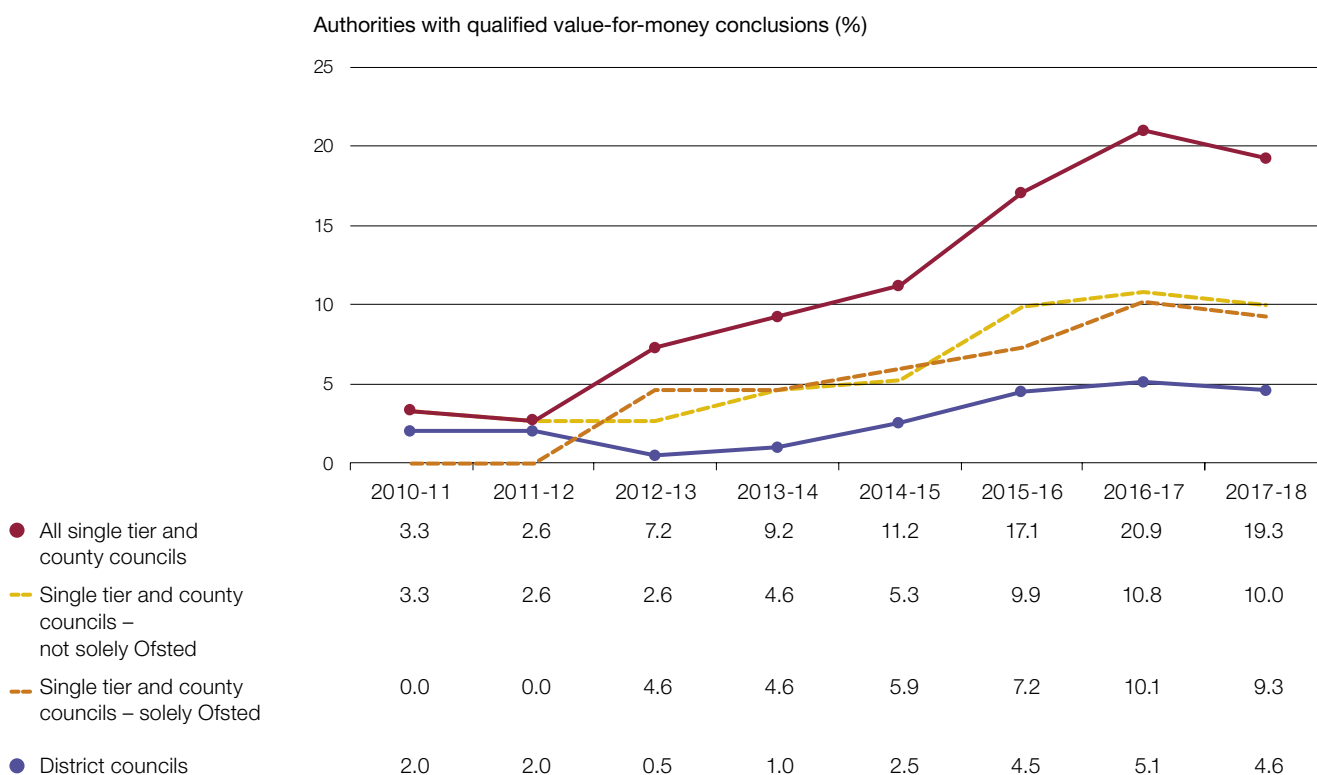
External auditors' findings

2.29 There has been an increase in the number of qualified (adverse and 'qualified except for') conclusions on authorities' value-for-money arrangements (**Figure 13**). A qualification indicates that elements of an authority's arrangements are inadequate. The introduction of new guidance for auditors alongside a new code of audit practice in 2015-16 may have partly driven this change, although in principle the basis for a qualification remained unchanged.

Figure 13

Change in qualified conclusions on local authorities' arrangements to secure value for money

In 2017-18 nearly one in five single tier and county councils had a qualified conclusion on their arrangements to secure value for money



Notes

- 1 These figures are based on the number of qualifications divided by the number of published conclusions as of 17 December 2018. If the total number of relevant local authorities was used as the denominator instead then 17.8% of all single tier and county councils and 4.47% of district councils have received a qualified conclusion in 2017-18.
- 2 We show cases where a qualified conclusion is based solely on the outcome of an Ofsted children's services inspection as these are an important factor underlying levels of qualifications in single tier and county councils.

Source: National Audit Office analysis of local statements of accounts and other published material

2.30 In 2017-18, 19.3% of single tier and county councils and 4.6% of district councils received qualified conclusions.²¹ This rate of qualification is markedly lower than in some other public bodies.²²

2.31 Roughly half of the qualifications in single tier and county councils were given solely on the basis that the children's social care service had been rated 'inadequate' in an Ofsted inspection. An increase in inadequate outcomes from Ofsted inspections has contributed to the overall increase in qualified conclusions. These qualifications tend to be repeated over multiple years because most children's services in local authorities are not inspected annually by Ofsted. Therefore, the auditor is unlikely to lift the qualification until the inspectorate has re-inspected the provider and given it a new rating.

2.32 In 2017-18 one in ten single tier and county councils were qualified for reasons other than solely Ofsted inspections. Our recent report on the work of local auditors concluded that the level of qualified conclusions is unacceptably high.²³

Authorities' engagement with external auditors

2.33 Our survey indicated that auditors felt that senior officers had a good understanding of the role of the auditor and the level of assurance their work provided (**Figure 14** overleaf). However, this was not always the case in relation to members.

2.34 Auditors also indicated that authorities' audit committees were not always effective in reviewing their findings and securing action from management (**Figure 15** on page 37).

2.35 Some auditors raised concerns about the response of audit committees, and the authority more widely, to qualified conclusions in 2016-17. In one in six of these cases the auditor considered that the audit committee had not responded appropriately (**Figure 16** on page 37).

Authorities' views of external audit

2.36 In some of our focus groups and interviews, heads of paid service, section 151 officers and internal auditors raised concerns that the contribution of external audit to local governance had been reduced recently. Frequently, they linked this to the reduction in the audit fee paid by authorities. Some respondents to our section 151 officer survey thought their fees for 2017-18 were too low (**Figure 17** on page 38).²⁴

21 These figures are based on the number of qualifications divided by the number of published conclusions as of 17 December 2018. If the total number of relevant local authorities was used as the denominator instead then 17.8% of all single tier and county councils and 4.47% of district councils have received a qualified conclusion in 2017-18.

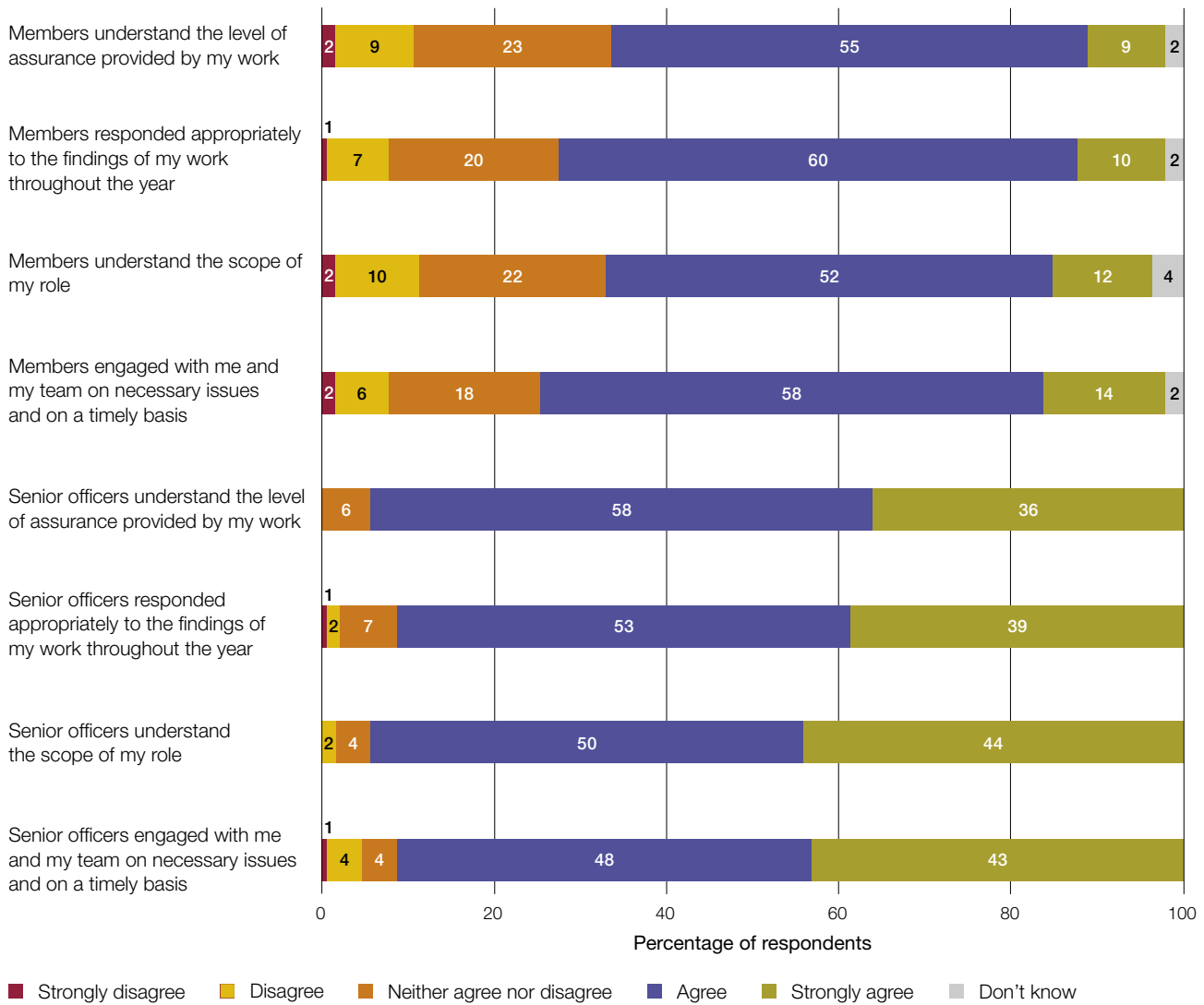
22 Comptroller and Auditor General, *Local auditor reporting in England 2018*, Session 2017-2019, HC 1864, National Audit Office, January 2019; see Figure 2 of that report for an explanation of qualified conclusions.

23 See footnote 22.

24 This relates to the initial scale fee for the audit. There can be fee variations where additional work is required.

Figure 14
Auditors' views on engagement with local authorities

External auditors are more positive about their interaction with officers than with elected members



Notes

1 N=197.

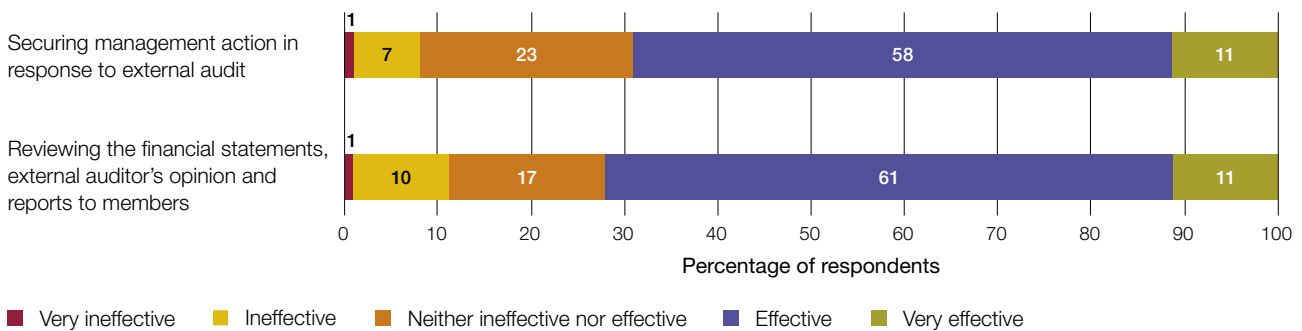
2 Bar lengths are based on unrounded data but data labels have been rounded. Some sets of data labels may not sum to 100.

Source: National Audit Office survey of external auditors

Figure 15

Auditor's views on audit committee responses to the findings of external auditors

External auditors did not always find that audit committees responded effectively to external audit findings

**Notes**

1 N=197.

2 Bar lengths are based on unrounded data but data labels have been rounded. Some sets of data labels may not sum to 100.

Source: National Audit Office survey of external auditors

Figure 16

Auditors' views on local authority responses to qualified conclusions in 2016-17

| | Response of the audit committee (number) | Response of the authority as a whole (number) |
|--|--|---|
| Appropriate action was taken – fully | 6 | 4 |
| Appropriate action was taken – partly | 14 | 15 |
| Appropriate action was not taken | 4 | 4 |
| Don't know | 0 | 1 |
| Total number of qualified conclusions in auditor survey | 24 | 24 |

Notes

1 N=24.

2 The table shows data for the 24 responses from external auditors to our survey where the value for money conclusion for the authority had been qualified in 2016-17.

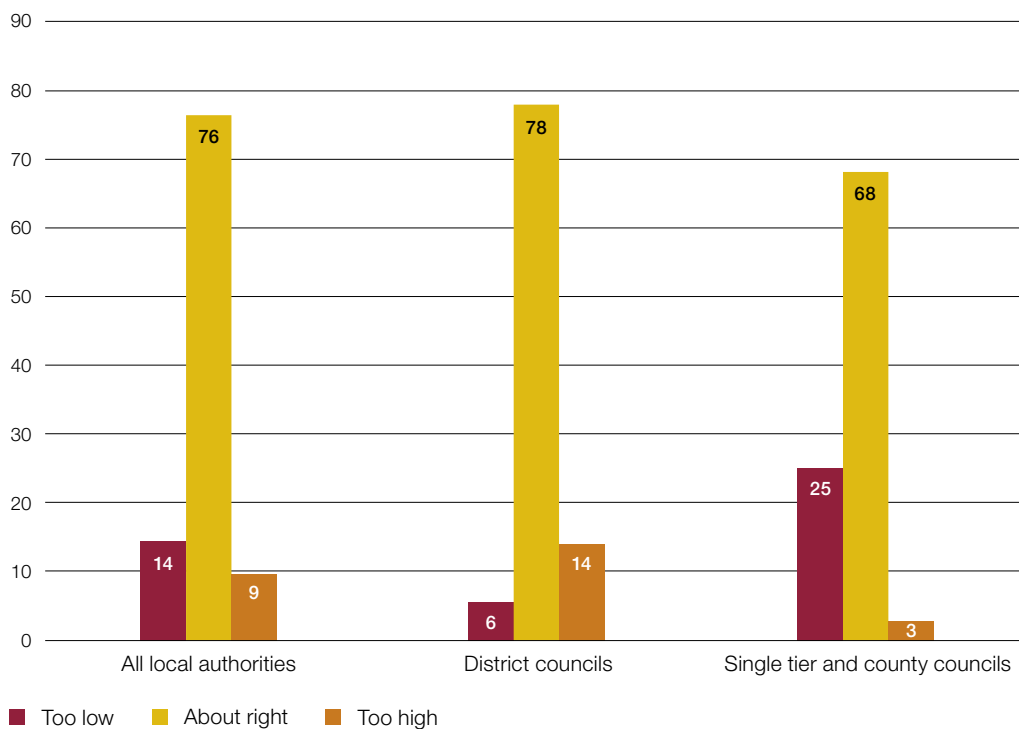
Source: National Audit Office survey of external auditors

Figure 17

Section 151 officers' views on their external audit scale fee for 2017-18

While the majority of section 151 officers are happy with their audit fees, a quarter of respondents from single tier and county councils felt their fees are too low relative to the risk their authority faces

Percentage of respondents

**Notes**

- 1 All authorities: N=144. District councils: N=72. Single tier and county councils: N=72.
- 2 Numbers do not sum to 100 due to rounding and 'don't know' responses, which are included in the denominator but not shown in the chart.
- 3 To reflect differences in relative response rates from district councils and single tier and county councils the data for 'all local authorities' has been weighted back to the distribution of authorities by type in the population. See Appendix Two.

Source: National Audit Office survey of section 151 officers

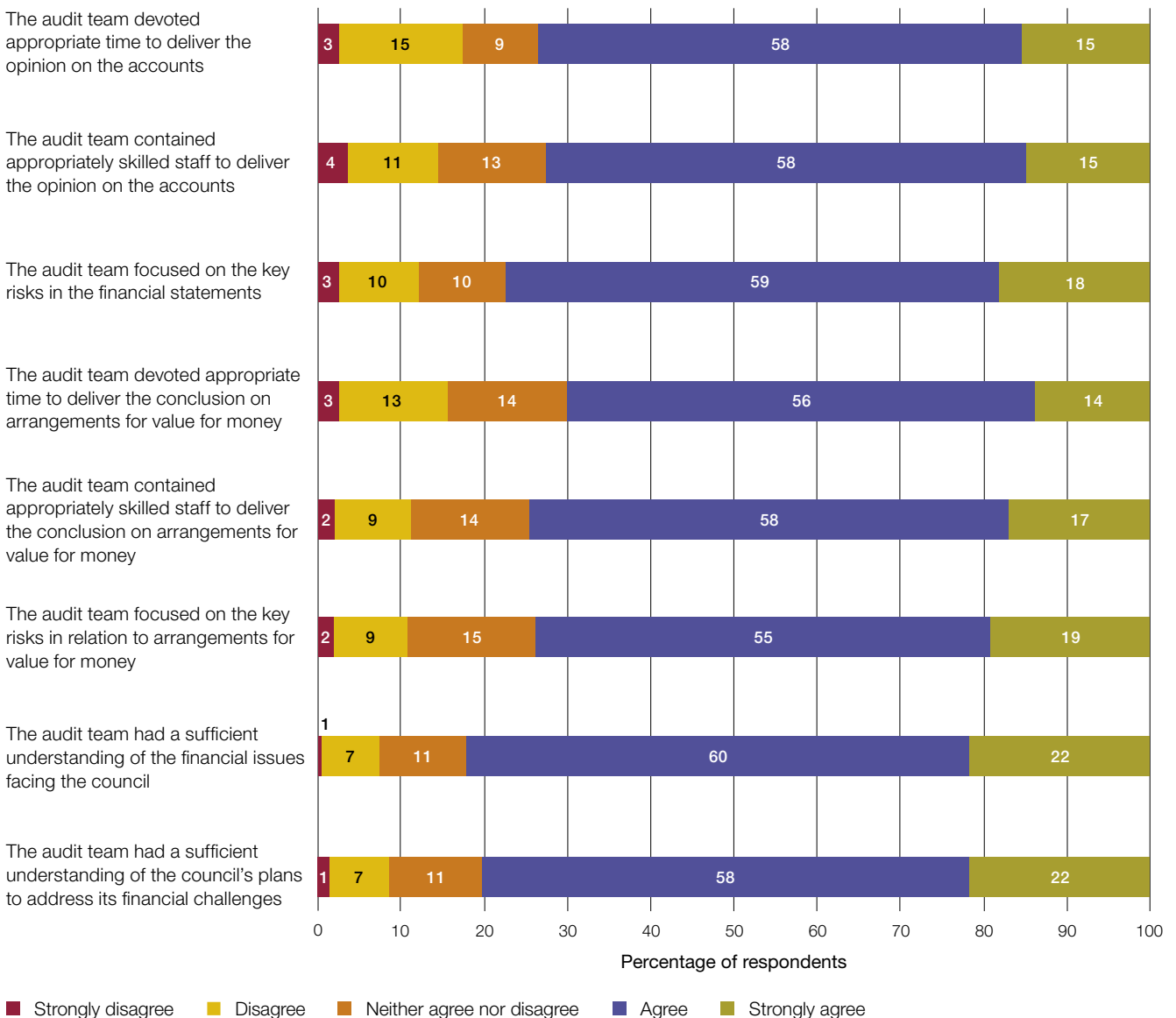
2.37 However, Public Sector Audit Appointments told us that the core elements of the audit have remained largely unchanged. Areas of activity that have been cut back, and thereby delivered savings, include work previously undertaken by auditors outside the core audit, such as use of resources and organisational assessments. The LGA also rejected the view that the reduction in fees had affected the contribution of the core audit.

2.38 Our survey of section 151 officers identified some concerns about the delivery of external audit in 2017-18 (**Figure 18**). For instance, only 70% of respondents agreed or strongly agreed that auditors had spent sufficient time on their value-for-money work. Only 74% agreed or strongly agreed that the auditor had identified the key risks relating to value-for-money arrangements.

Figure 18

Section 151 officers' views on external audit

In the majority of cases, but by no means all, section 151 officers were satisfied with their external audit in 2017-18

**Notes**

1 N=144.

2 To reflect differences in response rates from different types of authority (district council or single tier and county council), survey responses have been weighted back to the distribution of authorities by type in the population. See Appendix Two.

3 Bar lengths are based on unrounded data but data labels have been rounded. Some sets of data labels may not sum to 100.

Source: National Audit Office survey of section 151 officers

2.39 The Financial Reporting Council on behalf of Public Sector Audit Appointments assesses audit quality. Based on the oversight work performed, neither body felt that the quality of auditors' value-for-money work had fallen in recent years. Public Sector Audit Appointments told us that they felt there may be a misconception about audit quality in the sector. In their view audit quality is about the delivery of an audit that is compliant with relevant codes and standards. Therefore, in their view, where authorities raise concerns that they are not receiving the assurances they need from external audit this in some cases may be an issue with the scope rather than the quality of the audit, linked to an expectations gap in terms of the auditor's remit.

Authorities' views on areas for change

2.40 A significant proportion of respondents to our survey of section 151 officers indicated that they would like some change in external audit. Overall 51% of respondents from single tier and county councils wanted some form of change. For district councils the figure was 36%.

2.41 Respondents from district councils mainly raised concerns about the timeliness of work and the quality of audit staff (**Figure 19**). In contrast, a number of respondents from single tier and county councils wanted less time spent on the valuation of assets and unusable reserves in the opinion on the accounts. Many wanted to see more of a focus on value-for-money issues, particularly in relation to financial sustainability. However, it was not clear whether these needs could only be met through audit rather through other elements of support.

2.42 Our external auditor focus group indicated that they recognised the demand within certain local authorities for more work on value-for-money and financial sustainability issues. However, they were clear that their work must conform to the auditing standards they are assessed against and any additional activity may have implications for the fee needed for the audit.

Other external oversight

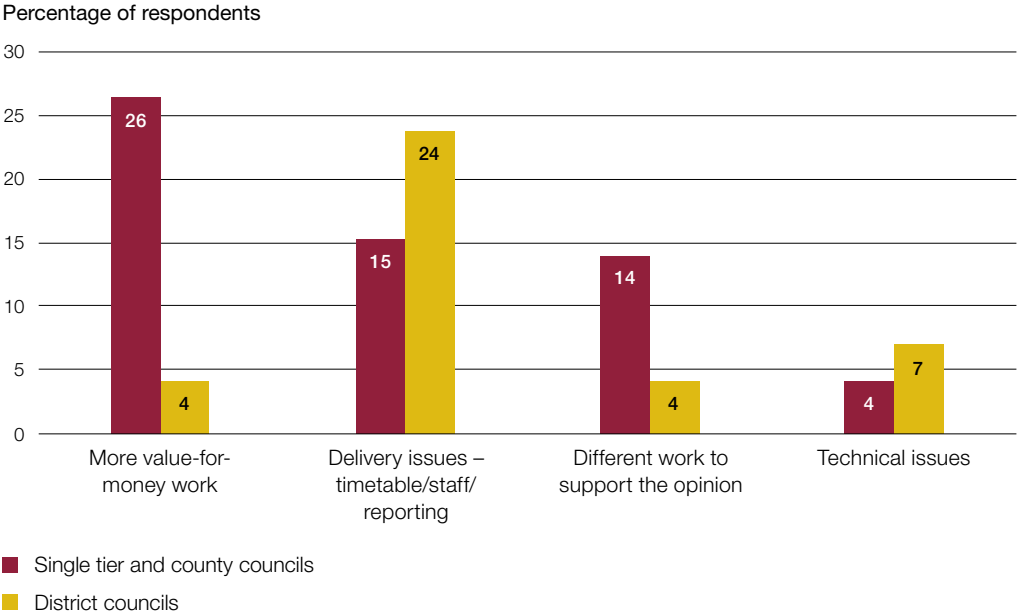
2.43 The Local Government and Social Care Ombudsman examines individual complaints about council services. The Ombudsman publishes 'focus' reports covering specific themes arising from complaints, in order to highlight common issues.

2.44 The LGA's peer challenge processes are the centrepiece of a wider 'sector-led improvement' offer to councils. The scope of the peer challenge and the makeup of the team delivering it is agreed with the council concerned. The process is voluntary and there is no requirement to publish the final report, although the LGA has an expectation that corporate peer challenge reports should be published. The LGA is clear that peer challenge is an improvement tool and that any assurance that the process provides is a by-product of this primary objective.

2.45 While we recognise the significance of both the Local Government and Social Care Ombudsman and the LGA it has been beyond the scope of this work to assess their contribution in depth.

Figure 19
Areas of external audit where section 151 officers would like change

There are marked differences between section 151 officers from district councils and single tier and county councils in the areas of external audit where they would like change



Notes
1 N=144.
2 Based on classification of free text responses.

Source: National Audit Office survey of section 151 officers

Part Three

The role of the Department

3.1 This part examines the Ministry of Housing, Communities & Local Government's (the Department's) responsibilities as steward of the system, how it assures itself that the system is effective, and the steps it takes when intervention is required.

The Department's role and aims

3.2 The accountability system for local government is intended to ensure that councils are accountable for acting with regularity, propriety and value for money in the use of all their resources, whether provided by central government or raised locally. The system serves both Parliament and local people as the funders of councils. The Department is responsible for ensuring the system is working.

3.3 The Department told us that its role required it to test and examine the system. This means that it examines the system overall and its individual elements, rather than individual councils. In its view, individual local failings do not represent system failure. It also considered that given the multifaceted nature of the system, systemic failure would require several elements of the framework to fail simultaneously. The Department said that the identification of system failure would involve a judgement based on the nature, scale and circumstances of local failings.

3.4 The Department's most recent full-year assessment concluded that overall the local government accountability framework remained robust, and no areas required attention within the next 12 months. However, some areas were identified for potential further investigation in the light of changing pressures on local authorities.

How the Department seeks assurance

Responsibility for governance assurance within the Department

3.5 To enable the Department's accounting officer to discharge her responsibility for the effectiveness of the local accountability framework, officials seek assurances from and about the system. This involves officials from three different directorates who produce formal local accountability assurance advice for the accounting officer up to twice a year, with an overview of:

- the Department's assessment of the functioning of the system;
- the work that has been done to underpin the assessment;
- the work that has been done to improve the system; and
- recommendations for further work or changes.

Information on governance risks

3.6 The Department collects most of its information on governance risks as part of its work on understanding the risk of financial failure in the sector. We noted in our report on *Financial sustainability of local authorities 2018* that these arrangements had improved and that they drew on a wide range of sources.²⁵ As part of these processes, the Department divides the risk factors it identifies into three categories: financial capacity, leadership capability, and service delivery. This information then underpins the six-monthly assurance advice to the accounting officer.

3.7 The Department told us that the Local Government Association's (LGA's) work to support sector-led improvement is also a particularly important source of information. Officials from the LGA and the Department are expected to meet regularly to discuss delivery of sector-led improvement and, in particular, local authorities facing particular challenges.²⁶ The peer challenge process, an important part of sector-led improvement, is voluntary, as is publication of peer challenge reports.²⁷ The Department told us that it has acted to extend the coverage of peer challenges. The Department's 2018-19 memorandum of understanding with the LGA includes halving the number of authorities without a corporate peer challenge since 2012 in 2018-19.

²⁵ Comptroller and Auditor General, *Financial sustainability of local authorities 2018*, Session 2017-2019, HC 834, National Audit Office, March 2018.

²⁶ *Memorandum of Understanding Between the Ministry of Housing, Communities and Local Government and the Improvement and Development Agency regarding the provision of support and assistance to the local government sector: Grant Funding 2018-19*, LGA/MHCLG, March 2018, p. 5.

²⁷ Comptroller and Auditor General, *Financial sustainability of local authorities 2014*, Session 2014-15, HC 783, National Audit Office, November 2014, paragraph 3.8.

3.8 Overall, the Department has a reasonable amount of information on governance risks in individual authorities. This is demonstrated by its detailed financial risk analysis reports that identify authorities about which the Department has concerns and highlight the extent to which governance factors may be contributory to financial risk. This represents a widening of the Department's focus from quality of leadership to also cover the governance arrangements that support leadership.

Systemic governance risks

3.9 Much of the Department's evidence base is drawn from individual cases. While this is an important aspect of understanding governance risks in the sector, it also reflects the lack of national data on governance. Apart from the annual report on the work of auditors published by Public Sector Audit Appointments Ltd there are almost no aggregated data sources.

3.10 Given the Department's focus on identifying system-wide governance risks, the lack of a system-wide evidence base is a fundamental challenge. However, the Department told us it is getting better at identifying common themes from individual cases. For instance, it told us it had recently carried out a thematic analysis of the results of its contacts with councils. We have not seen the results of this work.

3.11 Ultimately, however, without system-wide data the Department is not able to test many elements of local governance. It does not have enough information on the governance issues we examined in Part Two to assure itself that these elements are functioning as intended. These include:

- the status of statutory officers and their ability to engage with senior leadership teams and members;
- the nature and robustness of authorities' risk management;
- the make-up and effectiveness of audit committees;
- funding for internal audit and the implications of the growing scope of the role;
- the resources available to, and the effectiveness of, overview and scrutiny functions; and
- the robustness of authorities' standards regimes and the extent to which this affects broader governance.

The Department told us that the lack of systemic data reflects the previous policy decision to remove the national performance framework overseen previously by the Audit Commission.

Prioritising resources

3.12 The Department has demonstrated a willingness to undertake significant work to build a system-wide evidence base in relation to financial risk. For instance, in early 2017 it collected and analysed budget-setting reports for all single tier and county councils to understand their savings plans.

3.13 Similar sources of information are available to support comprehensive information on authorities' governance, such as annual governance statements, heads of internal audit annual reports, and reports to those charged with governance (ISA 260 reports). However, the Department has not examined these systematically.

3.14 The Department recognises that it could do more to identify systemic concerns. However, it has taken a risk-based judgement to focus its efforts on financial risk. While it is unsurprising that the Department has prioritised constrained resources, a failure to develop a fuller picture of the effectiveness of local governance arrangements could be a risk to the long-term viability of the system.

Departmental interventions in the system

3.15 The Department is able to intervene formally and informally in individual authorities where it has concerns about governance arrangements. It is also able to intervene in the overall design of the system should it require change.

Case level

Levels of intervention

3.16 There are three levels of action that the Department takes to address value-for-money risks at individual authorities:

- It can **engage informally** with an authority (or group of authorities) to influence and assist them. This contact can be direct or indirect, and can vary in level and intensity.
- In more serious instances but where the authority involved is open to this level of assistance, the Department can **intervene without use of formal statutory powers**. The Department will make appointments to bespoke bodies like independent improvement panels. These bodies provide support and challenge to the authorities involved and assurance about improvement to the Department.²⁸
- Where there are serious concerns but continued resistance from the council involved, the Department can consider the use of **statutory intervention powers**. The quasi-judicial decision to use these formal powers, which involve removing the control of functions or services from democratically elected local politicians, is for the Secretary of State.²⁹

²⁸ Currently there are non-statutory interventions in Birmingham City Council and the Royal Borough of Kensington and Chelsea.

²⁹ Currently there is a statutory intervention in Northamptonshire County Council.

Indirect intervention

3.17 In addition to providing information, elements of the LGA's sector-led improvement work are important to the Department as a form of indirect engagement. In 2016 the then Minister for Local Government stated that: "If we become aware through complaints... that there could be statutory failure, we have the ability to ask the LGA to look at the governance of a particular authority, to do a peer review, for example. We can then judge whether the complaints or the concerns that have been raised are sufficient to take further action."³⁰

3.18 The Department told us that this process allows it to assess the scale of an authority's issues and what further engagement might be necessary. The Department told us that it was confident in the robustness of most council peer challenges and felt that the process overall gave a suitable level of assurance, despite its primary purpose being improvement.³¹ The LGA told us that it has no power to direct an authority to undergo a peer review, and that the process is entirely voluntary.

Formal intervention

3.19 The Department told us that there was no fixed process for advising the Secretary of State about the use of formal intervention powers as this would increase the risk of legal challenge. Advice to ministers about potential intervention is private.

3.20 There is also no transparent process for deciding on lower-level engagement with individual authorities, or about non-statutory intervention such as independent improvement panels. When considering engagement with an authority in crisis, the Department felt there was a need for a 'safe space' to develop ideas, debate live issues, and reach decisions away from external interference and distraction. The Department believes that its approach gives it flexibility and reduces the risk of legal challenge, and that privacy also benefits the authorities themselves. However, it also means that the scale and effectiveness of its engagement in the sector is not open to public scrutiny or challenge. We have said elsewhere that transparency is a crucial element of a robust, accountable system of decision-making, that safeguards taxpayers' money effectively.³²

3.21 A recent select committee report on statutory intervention recommended that the Department review the experience of interventions once they had ended and report publicly on the lessons that could be learned for the intervention process.³³ The Department did not commit to report in this way.³⁴

30 Oral evidence given on 6 November 2017 to the then Communities and Local Government Committee inquiry into *Overview and scrutiny in local government*, Session 2017–2019, HC 369, Q127.

31 The most recent evaluation of sector-led improvement provided a range of examples of positive impacts from corporate peer challenges. However, this was balanced by some concerns over some authorities avoiding the process. James Downe et al., *Rising to the challenge: an independent evaluation of the LGA's corporate peer challenge programme*, Cardiff Business School, February 2017, p. 32.

32 Comptroller and Auditor General, *Accountability to Parliament for taxpayers' money*, Session 2015–16, HC 839, National Audit Office, February 2016.

33 HC Communities and Local Government Committee, *Government interventions: the use of Commissioners in Rotherham Metropolitan Borough Council and the London Borough of Tower Hamlets*, Fourth Report of Session 2016–17, HC 42, August 2016.

34 Secretary of State for Communities and Local Government, *Government Response to the Communities and Local Government Select Committee report: 'Government Interventions: the use of Commissioners in Rotherham Metropolitan Borough Council and the London Borough of Tower Hamlets'*, CM 9345, October 2016.

System-level intervention

Direct intervention

3.22 The Department is ultimately responsible for the system, and acts when necessary. For instance, following a Committee of Public Accounts report that highlighted concerns about the new and additional risks involved in commercial ventures financed by borrowing, the Department made changes to the statutory guidance to enhance risk management of borrowing and ensure a more prudent approach to repaying it. It also worked with the Chartered Institute of Public Finance and Accountancy (CIPFA) on other codes and guidance. The Department also intends to publish updated guidance for councils on overview and scrutiny following recommendations from the Communities and Local Government Select Committee.

Network intervention

3.23 Multiple organisations have been given responsibilities relating to the framework (**Figure 20** overleaf). Consequently, where change is required the Department may judge that the best approach is to encourage other organisations to act. If Departmental officials believe that other organisations are not willing or able to act, or there is a need for action by the government within the next 12 months, then they discuss this with the accounting officer, who may decide to recommend changes to ministers.

3.24 The Department engages with the various organisations in the system framework, to influence them to fulfil their responsibilities. It does this in several ways:

- A memorandum of understanding with the LGA about sector-led improvement, which reflects the fact that this work is funded by the Department, contains specific deliverables on aspects of governance, such as scrutiny training for councillors. The Department has said it is working with the LGA to improve members' understanding of the importance of audit committees.
- Membership of or attendance at panels attended by a range of stakeholders that hold formal, minuted meetings, including CIPFA's Treasury and Capital Management Panel. However, the Department is not a member of CIPFA's Governance Panel and the Government Internal Audit Agency represents central government on the UK Public Sector Internal Audit Standards Advisory Board.
- Through time-limited groupings. For example, the Department set up an external audit delivery board that brought together organisations involved in the external audit reforms. The Department told us that this was disbanded with the agreement of members, after the legislative changes were completed.
- Through one-to-one or ad hoc meetings or exchanges of correspondence.

Figure 20

Roles and responsibilities within the local government accountability system framework are distributed widely

| Organisation name | Responsibilities |
|---|---|
| Chartered Institute of Public Finance and Accountancy (CIPFA) | Responsible for local authority accounting code, prudential code, and framework for good governance in local government. Internal audit standards setter for local government. |
| Financial Reporting Council | Sets UK accounting standards. In respect of 2018-19 audits onwards, responsible for monitoring the quality of 'major' local government audits. |
| Public Sector Audit Appointments Ltd | Appointing body for 98% of local authority external audits. Responsible for setting audit fees, managing audit contracts, and (before 2018-19) audit quality monitoring that was partly outsourced to the Financial Reporting Council. |
| Institute of Chartered Accountants in England and Wales (ICAEW) | Registers local public auditors, and from 2018-19 is responsible for monitoring quality of smaller external audits. |
| National Audit Office | Sets Code of Audit Practice for local external auditors, most recently in April 2015, and provides guidance. Must use reasonable endeavours to produce a new code within five years, so will work to develop and consult on a new code to be issued no later than April 2020. |
| Chartered accountancy bodies (including CIPFA and ICAEW) | Provide professional oversight and discipline for their members (section 151 officers are required to be qualified members of one of the bodies). |
| Local Government Association | Carries out sector-led improvement work funded by the Department. |

Source: National Audit Office analysis of departmental data

3.25 While the Department is engaged to differing degrees with all the different actors with responsibilities in the governance framework, the arrangements remain fragmented. There is no common vision or strategy; no public forum for highlighting gaps in the system, resolving disputes over roles or sharing information; and no clear leader that drives and coordinates change across the system. Given the scale of pressures faced by the sector and the broad range of issues, the continuation of a fragmented network model with passive leadership is a risk to the viability of local governance arrangements and their ability to mitigate the pressures faced by the sector.

Appendix One

Our audit approach

1 This study examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending is value for money and that authorities are financially sustainable. We reviewed:

- the pressures acting on the local governance system and the consequent challenges for governance;
- the extent to which local governance arrangements function as intended; and
- whether the Ministry of Housing, Communities & Local Government (the Department) is fulfilling its responsibilities as steward of the system.

2 For the first of these we drew on past work on local government to provide a baseline against which change in the level of financial pressure could be assessed.

3 For the second of these we applied an analytical framework with evaluative criteria based on:

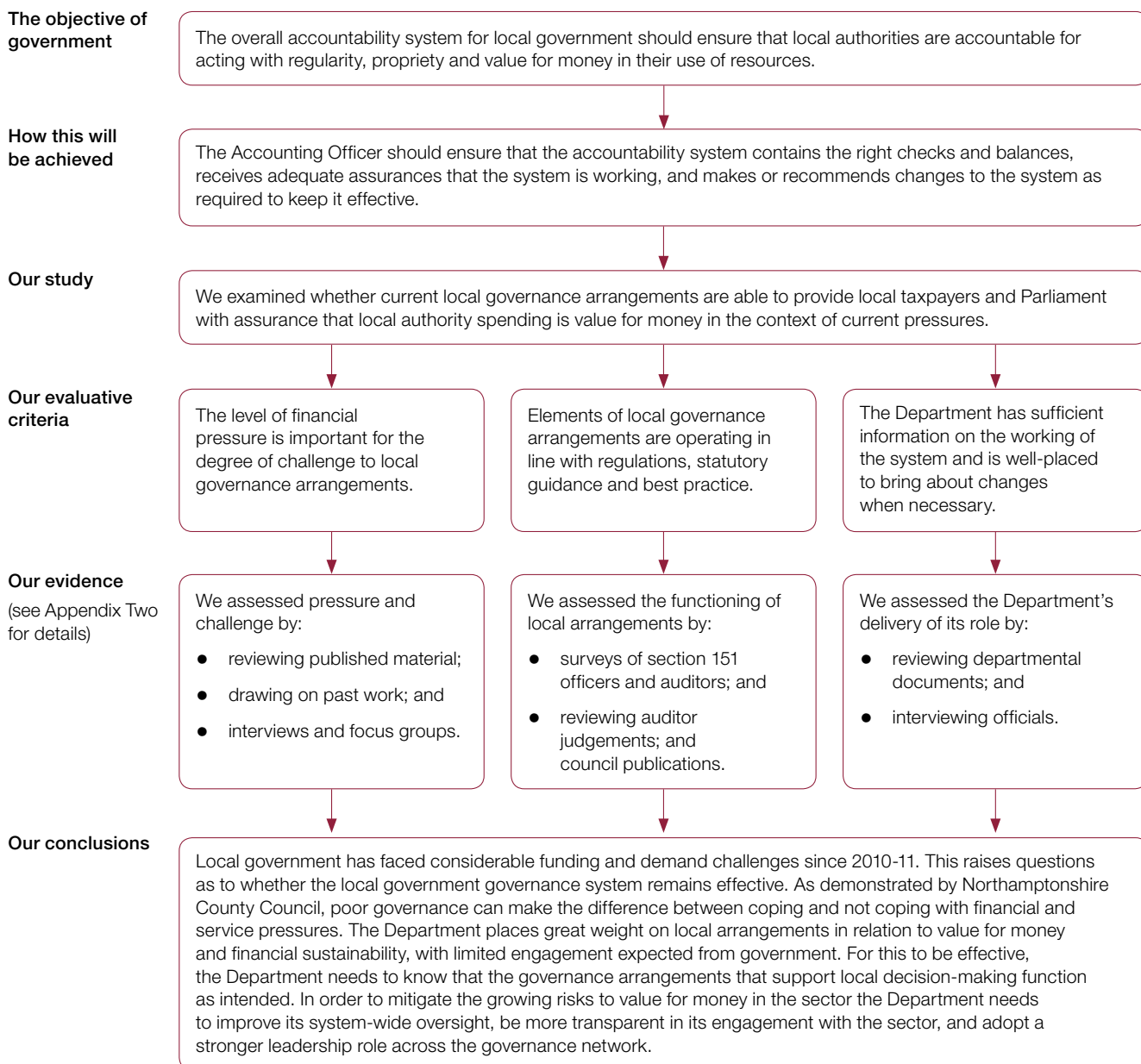
- the Department's account of the local government accountability system in its Accounting Officer System Statement; and
- the frameworks, guidance and proper practices set out by the Chartered Institute of Public Finance and Accountancy (CIPFA) as the relevant professional body (and given force by statute or regulations).

4 For the third of these we applied an analytical framework based on the Department's account of its responsibilities.

5 Our audit approach is summarised in **Figure 21** overleaf. Our evidence base is summarised in Appendix Two.

Figure 21

Our audit approach



Appendix Two

Our evidence base

- 1 Our independent conclusions on whether local governance arrangements provide sufficient assurance about value for money were reached following our analysis of evidence collected primarily between July and October 2018.
- 2 We applied an analytical framework with evaluative criteria that set out how the government's overall objective can be achieved. Our analytical approach is set out in Appendix One.
- 3 We define 'local authorities' as the 353 principal councils. This includes metropolitan borough councils, unitary authorities, London borough councils, county councils and district councils. We include the City of London and the Isles of Scilly. We group metropolitan borough councils, unitary authorities, London borough councils and county councils together as 'single tier and county councils' throughout the report.
- 4 We exclude combined authorities, police and crime commissioners, standalone fire and rescue authorities, national park authorities and the Greater London Authority.

Assessing challenges to and the implications for governance

- 5 **We assessed the level of financial pressure on local government and the challenges this poses for local governance arrangements.**
 - We drew on and updated evidence from previous work on the financial sustainability of local authorities and local authority capital spending. Unless drawn from a previous published report our analysis of local authority spending has been converted into real terms in 2017-18 prices. We use the GDP deflator series published alongside the 2018 Budget.
 - Our analysis drew on the Revenue Outturn (RO) and Capital Outturn Returns (COR). We used case level data from the RO. Where an authority failed to provide a return in a particular year they are excluded from the relevant analysis across the whole time period. We use grossed national figures from the COR. These provide estimates for non-respondents.

- Our calculation of the percentage of single tier and county councils overspending their service budgets excludes spend on education, police, fire and rescue, public health and 'other services'. We remove spend on Sure Start and services for young people in order to be consistent with our approach in our study on *Local authority financial sustainability 2018*.³⁵
- We reviewed written evidence on relevant issues, including our past work on whistleblowing, reports from Parliamentary committees, the results of a survey of audit committee chairs conducted by the Chartered Institute of Public Finance and Accountancy (CIPFA), results from a survey of monitoring officers conducted by Lawyers in Local Government and *Local Government Lawyer*, and comments in letters issued by the Local Government and Social Care Ombudsman.
- We surveyed the external auditors of English councils about the profile of value-for-money risks at their councils (further details of this survey are provided in paragraph 6).
- We interviewed representatives of a range of stakeholders:
 - the Local Government Association (LGA) (Head of Improvement);
 - Centre for Public Scrutiny (Chief Executive);
 - Local Government and Social Care Ombudsman;
 - Society of Local Authority Chief Executives (SOLACE) (President);
 - Lawyers in Local Government (Monitoring Officer lead);
 - CIPFA (Chief Executive, Head of Governance and Associate Director of Local Government);
 - Financial Reporting Council (Acting Director, Audit Quality Review);
 - Society of District Council Treasurers (President);
 - Society of County Treasurers (President);
 - Society of London Treasurers (President);
 - Society of Municipal Treasurers (President);
 - London Councils (Director of Finance and Procurement); and
 - Public Sector Audit Appointments Ltd (PSAA) (Chief Officer).

³⁵ Comptroller and Auditor General, *Financial sustainability of local authorities 2018*, Session 2017–2019, HC 834, National Audit Office, March 2018.

- We held focus groups or other discussions with holders of key roles.³⁶
 - Chief executives: one focus group with six chief executives attending a meeting of SOLACE's Policy Board.
 - Local elected members: two member focus groups organised under the auspices of the LGA; we also discussed the study issues with attendees at a meeting of the LGA's Improvement Board.
 - Section 151 officers: one focus group with 10 section 151 officers for London authorities, held at a Society of London Treasurers committee meeting; one focus group with eight section 151 officers for urban authorities of different types, held at a Society of Municipal Treasurers conference; one focus group with seven section 151 officers for county councils, held at a Society of County Treasurers committee meeting; and one focus group with 10 section 151 officers for district councils, held at a Society of District Council Treasurers committee meeting.
 - Heads of internal audit: one focus group held at the NAO's London office with 10 participants contacted via CIPFA, and one focus group held in Coventry with nine participants attending a meeting of the Midlands Counties Heads of Audit group.
 - External auditors: one focus group held at the NAO's London office with seven participants from the five firms currently holding PSAA's main contracts for principal councils; and a subsequent group discussion of survey results with firm representatives.
 - Monitoring officers: we discussed the study issues with interested attendees of the Lawyers in Local Government annual conference.
- We received information, in writing or by telephone conversations, from several other interested individuals.

Assessing the operation of local governance arrangements

6 We assessed whether local governance arrangements are operating as intended.

Literature analysis

- We analysed legislation, regulations, statutory codes and guidance, proper practices, professional standards and good practice guidance to identify the formal expectations of local governance arrangements.

³⁶ Across the focus group or set of groups for each of the roles concerned there was a variety of council types and geographical locations represented. Some participants, particularly heads of internal audit, held their role at more than one council.

Survey of section 151 officers

- We carried out an anonymous web survey of section 151 officers at English councils. It asked primarily structured questions about their opinions concerning their role and other governance arrangements at their council. The questions were informed by the formal expectations of these arrangements set out in CIPFA's *Delivering good governance in local government framework* and *The role of the chief financial officer in local government*.³⁷
 - CIPFA sent out the survey on our behalf.
 - We received responses covering 144 local authorities out of a possible 353 (**Figure 22**). In some cases, individual section 151 officers cover more than one local authority and may therefore have submitted separate responses for more than one authority. A 'response' to this survey therefore relates to the views of a section 151 officer in relation to a single authority.
 - In our responses district councils were slightly under-represented relative to single tier and county councils compared to the overall population of local authorities (**Figure 23**). To address this, where we have presented findings from this survey for all authorities we have weighted the response by local authority type back to the distribution in the population.
 - We received comments on the draft questions from CIPFA and the local authority treasurers' societies and they endorsed the survey to their members. We discussed the interpretation of the results in stakeholder interviews and focus groups carried out after the survey closed.
 - Many of the survey responses use a five-point Likert scale which includes 'neither agree nor disagree' as the middle point. In our focus group discussions, a number of which were with survey respondents, it was agreed this category indicated that respondents were not able to agree that suitable arrangements were in place. It was felt that respondents were not communicating that arrangements were dysfunctional, as they were by responding 'disagree' or 'strongly disagree', but they were indicating that they were not of an appropriate standard and that there was room for improvement.
 - Where respondents responded 'don't know' these responses were retained in both the numerator and the denominator in any analysis. However, we do not always show the results for these responses in every chart in the report. Where respondents responded 'not applicable' or 'rather not say' we removed these responses from both the numerator and the denominator in our analysis.
 - All our survey results are reported in whole numbers rather than to any decimal points.

³⁷ See footnote 8 for the framework. Chartered Institute of Public Finance and Accountancy, *The role of the chief financial officer in local government*, CIPFA, April 2016.

Figure 22
Survey response rates

| | Population | Section 151 officer responses | External auditor responses |
|---|------------|-------------------------------|----------------------------|
| Authorities/responses (number) | 353 | 144 | 202 |
| Responses as a percentage of population | – | 40.8% | 57.2% |

Notes

- 1 A 'response' relates to a response by a section 151 officer or external auditor for an individual local authority. It was possible for respondents to complete multiple responses if they were the section 151 officer or external auditor for more than one authority.
- 2 In a small number of cases not all questions were answered. The lowest number of responses for a particular question by section 151 officers was 139. For external auditors the number was 197.

Source: National Audit Office surveys of section 151 officers and external auditors

Figure 23
Responses by type of local authority

| | Population (%) | Section 151 officer responses (%) | External auditor responses (%) |
|---------------------------------|----------------|-----------------------------------|--------------------------------|
| District councils | 56.9 | 50.0 | 58.7 |
| Single tier and county councils | 43.1 | 50.0 | 41.3 |

Source: National Audit Office surveys of section 151 officers and external auditors

Survey of external auditors

- We carried out an anonymous web survey of external auditors of English councils. The survey was mailed to those operating at audit manager grade. It asked primarily structured questions about their opinions concerning their role and other governance arrangements at each council they audit. The questions were informed by the formal expectations of these arrangements set out in CIPFA's *Delivering good governance in local government framework*.
 - Audit firms provided us with contact details for the auditors and encouraged their employees to complete the survey.
 - We received responses covering 202 local authorities out of a possible 353 (Figure 22). In many cases, audit managers will oversee the audit of multiple authorities and may therefore have submitted separate responses for more than one authority. A 'response' to this survey therefore relates to the views of an auditor in relation to a single authority.

- Survey responses by authority type were a relatively close fit to the population (Figure 23). We have therefore not weighted any of the responses to this survey.
- We received comments on the draft questions from the audit firms and CIPFA. We discussed the interpretation of the results with the firms and in stakeholder interviews carried out after the survey closed.
- The same points about the 'neither agree nor disagree' category were made to us in the discussions with auditors on the survey findings as with the section 151 officers survey. This means that where an auditor has given this response, they are not able to agree that a particular governance element was of an appropriate standard and therefore there was room for improvement.
- Our treatment of 'don't know', 'not applicable' and 'rather not say' responses was the same as set out above in relation to the survey of section 151 officers.
- All our survey results are reported in whole numbers rather than to any decimal points.

Other methods

- We carried out stakeholder interviews and focus groups as outlined above.
- We reviewed the results of work by external auditors on value-for-money arrangements at English councils, drawing on:
 - summary reports published by Public Sector Audit Appointments (and the Audit Commission prior to 2014-15);
 - statements of accounts for 2017-18 for all councils, and earlier years where required for some; and
 - external auditor reports to those charged with governance (ISA 260 reports) for 2017-18 for all councils.
- In order to understand the extent to which qualified value-for-money conclusions were based on the findings of Ofsted inspections we classified auditors' qualified conclusions based on whether:
 - an Ofsted inspection was the sole factor cited in the qualified conclusion;
 - an Ofsted inspection outcome was a factor cited alongside other issues in the qualified conclusion; or
 - there was no reference to an Ofsted inspection in the qualified conclusion.

- We present data in the report for authorities where a qualified conclusion was solely the result of an Ofsted inspection (the first group in the sub-bullets immediately above), and for authorities where Ofsted was not the sole factor (the second and third groups in the sub-bullets immediately above). This analysis only applies to authorities that are subject to Ofsted inspections: single tier and county councils.
- Where the value-for-money conclusion for an authority has not been published in a particular year we remove that authority from both the numerator and denominator in our figures. Consequently, we show figures for the percentage of qualified conclusions as a share of those that have been published, rather than as a share of all local authorities.
- We carried out structured reviews of information published by local authorities about their governance arrangements, informed by the formal expectations of them:
 - Audit committee membership (census – all local authority websites);
 - Annual Governance Statements (50% sample);
 - Head of Internal Audit annual reports (50% sample); and
 - Whistleblowing policies (census – all local authority websites). We define policies published in 2014 or before as out of date. This reflects the changes to the whistleblowing arrangements introduced in 2015 following the abolition of the Audit Commission.

Assessing the Department's role

7 We assessed whether the Department is fulfilling its responsibilities as steward of the local accountability system.

- We drew on evidence from our past work on the Ministry of Housing, Communities & Local Government's (the Department's) assurance work on risk of financial failure in councils.
- We reviewed a range of Departmental documents: the Accounting Officer System Statement, memorandums of understanding with the Local Government Association, recent examples of full-year and mid-year assurance advice to the Accounting Officer, and redacted versions of analysis of councils at risk.
- We carried out five interviews with Departmental officials, covering the local accountability system, assurance on the system, and external audit.

Appendix Three

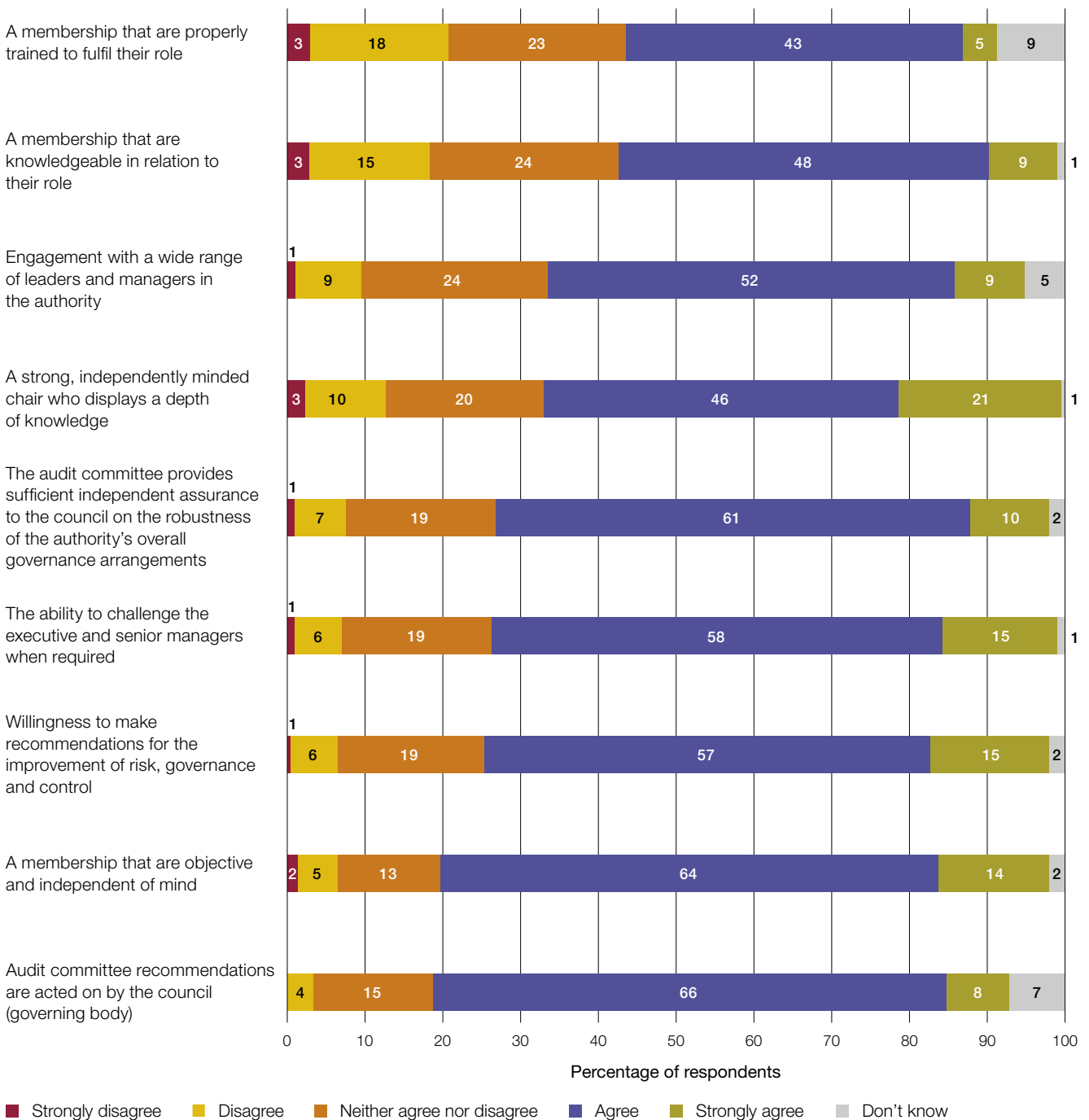
Additional data on internal checks and balances

Audit committees

Figure 24

External auditors' views on the characteristics of audit committees

Many external auditors have expressed concerns over the level of training and knowledge of members of audit committees



Notes

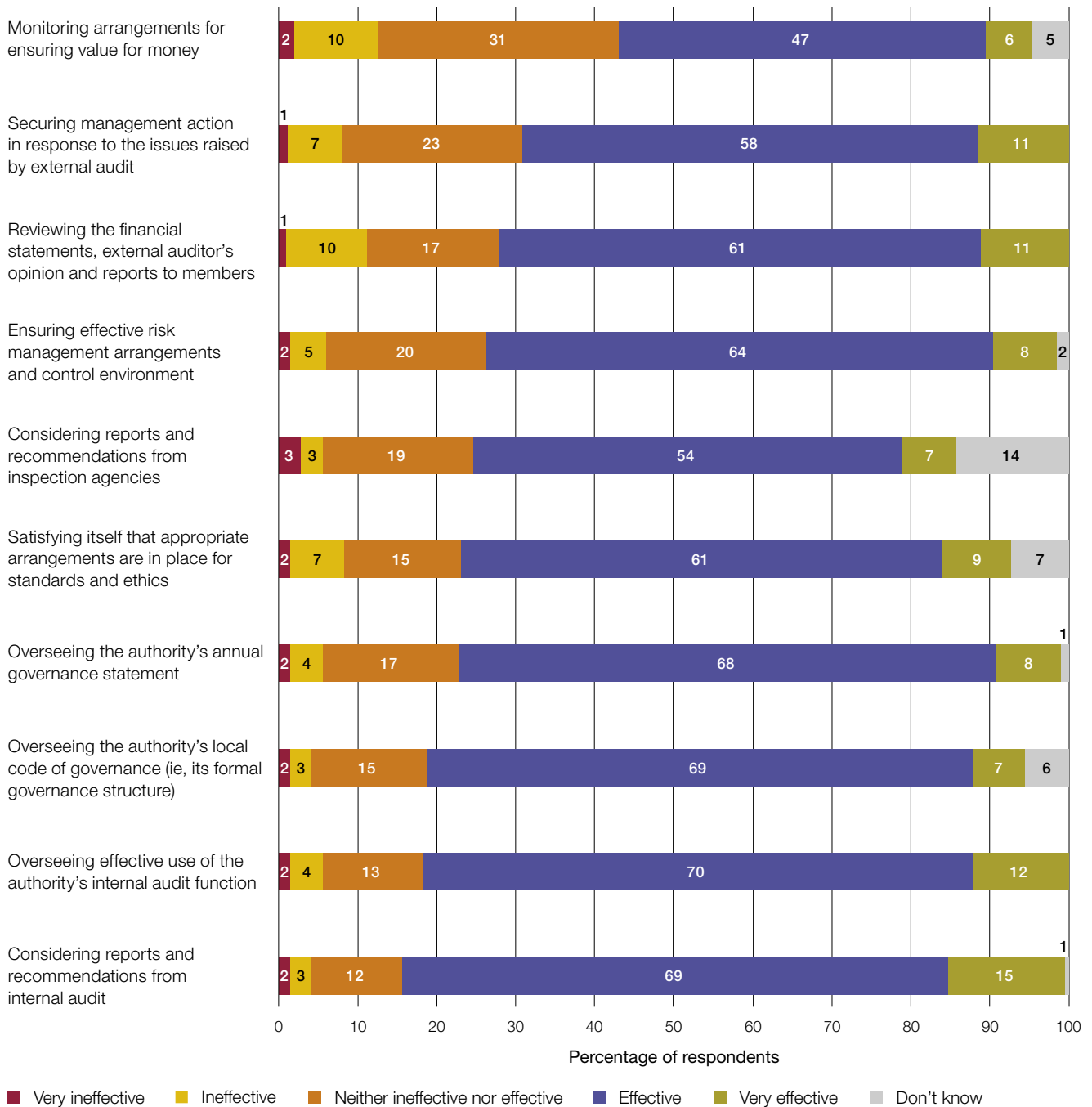
1 N=197.

2 Bar lengths are based on unrounded data but data labels have been rounded. Some sets of data labels may not sum to 100.

Source: National Audit Office survey of external auditors

Figure 25
External auditors' views on the work of audit committees

There are a range of areas where many external auditors did not feel that audit committees were effective



Notes

- 1 N=197, however responses of 'not applicable' have been removed in some cases.
- 2 Bar lengths are based on unrounded data but data labels have been rounded. Some sets of data labels may not sum to 100.

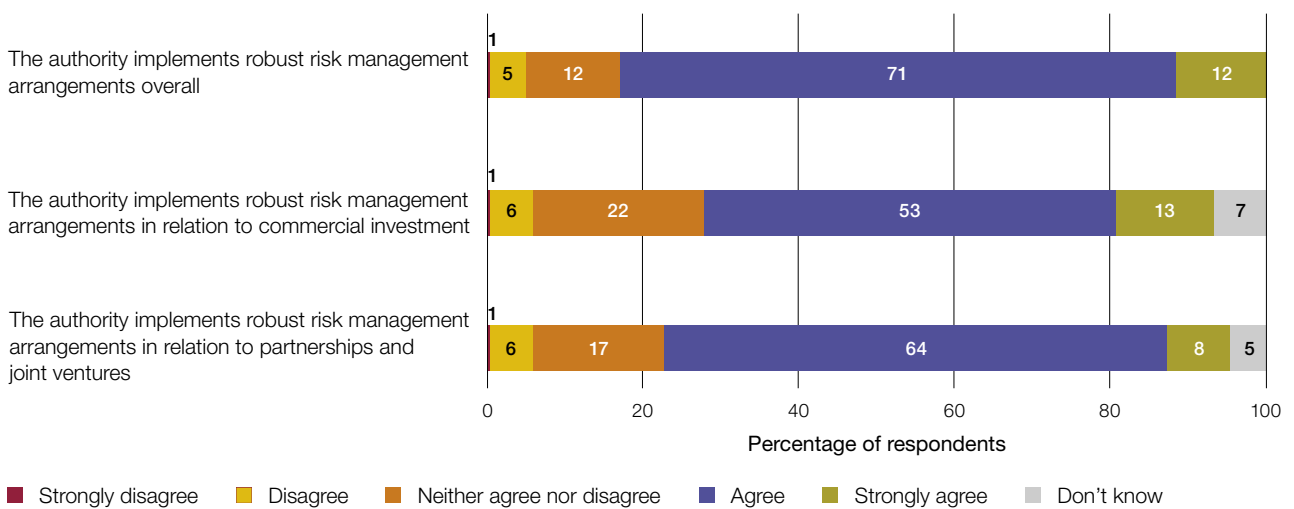
Source: National Audit Office survey of external auditors

Risk management

Figure 26

External auditors' views on risk management

While external auditors were positive about overall risk management in the majority of authorities, this was not always the case



Notes

- 1 N=197.
- 2 Bar lengths are based on unrounded data but data labels have been rounded. Some sets of data labels may not sum to 100.

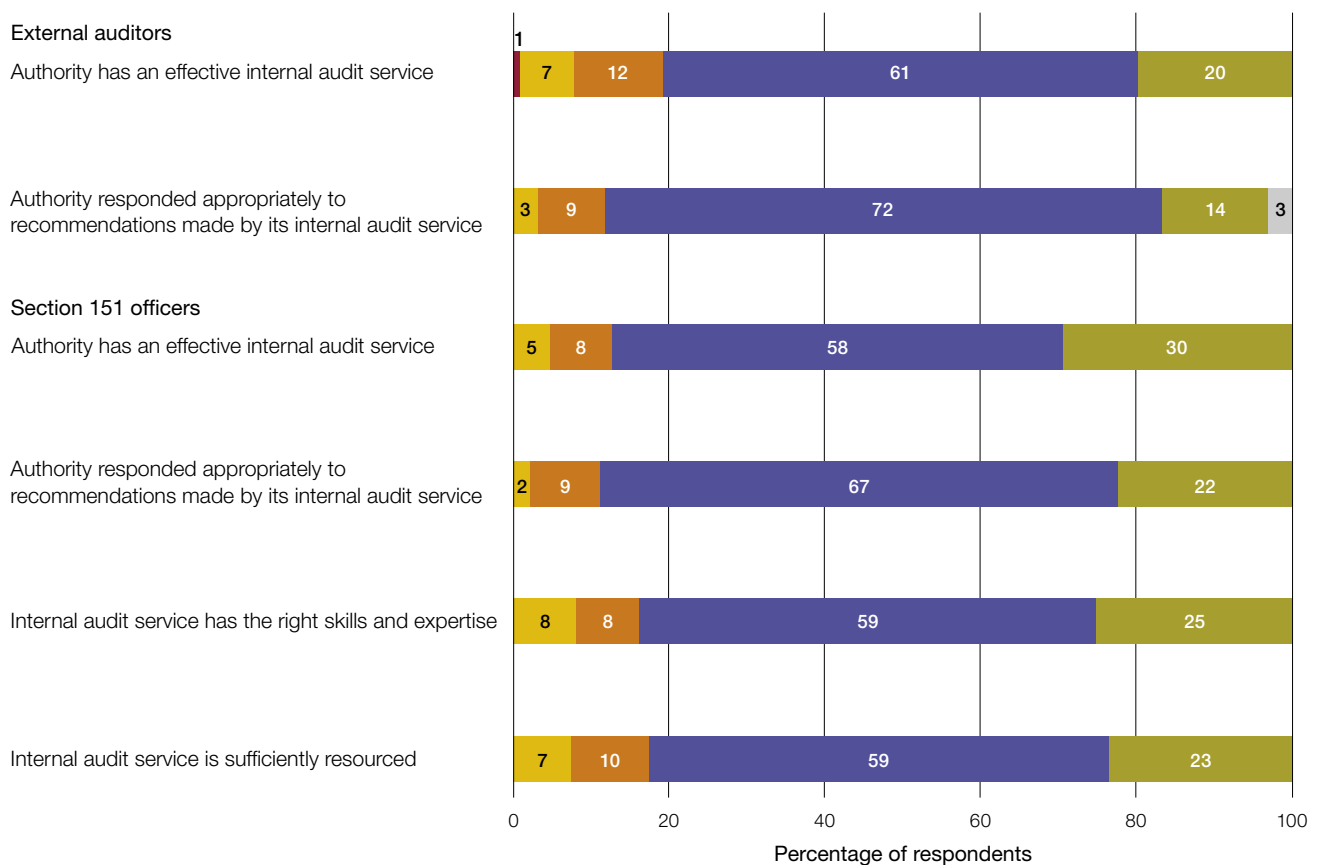
Source: National Audit Office survey of external auditors

Internal audit

Figure 27

External auditors' and sections 151 officers' views on internal audit

While the majority of both external auditors and section 151 officers felt their authorities had effective internal audit functions, this was not always the case



■ Strongly disagree
 ■ Disagree
 ■ Neither disagree nor agree
 ■ Agree
 ■ Strongly agree
 ■ Don't know

Notes

- 1 External auditors: N=197. Section 151 officers: N=141.
- 2 To reflect differences in response rates from different types of authority (district council or single tier and county council), survey responses from section 151 officers have been weighted back to the distribution of authorities by type in the population. See Appendix Two.
- 3 Bar lengths are based on unrounded data but data labels have been rounded. Some sets of data labels may not sum to 100.

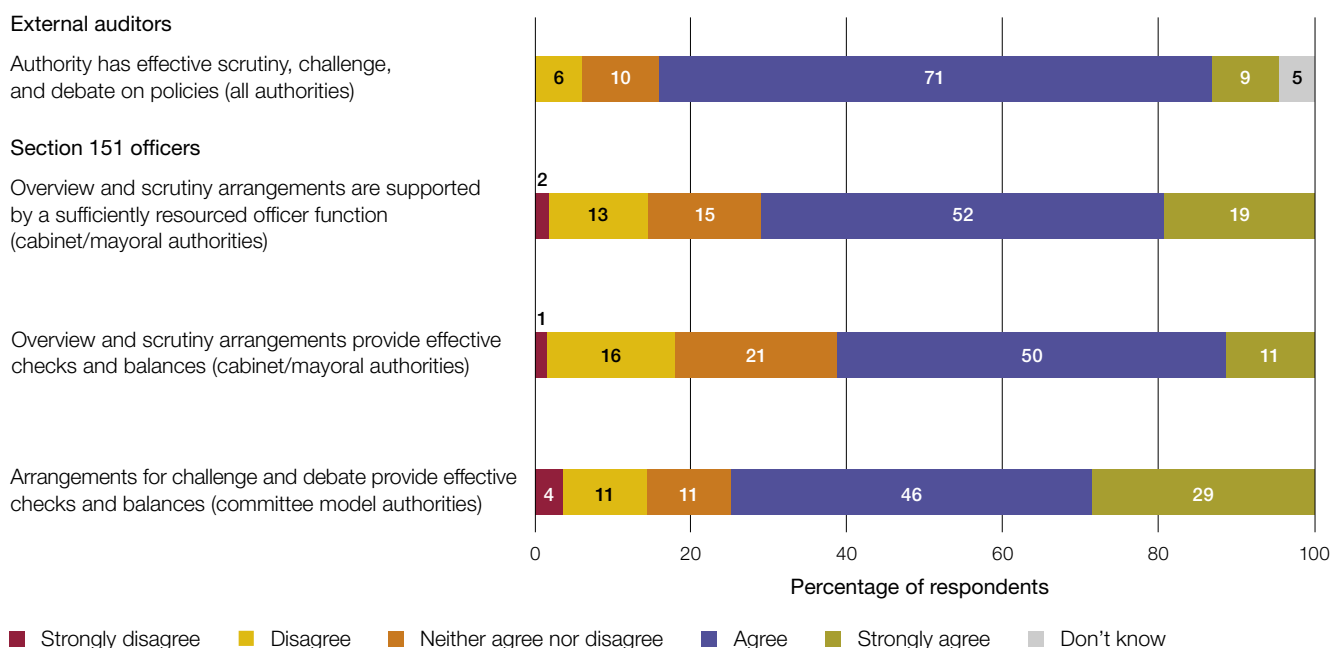
Source: National Audit Office surveys of external auditors and section 151 officers

Overview and scrutiny

Figure 28

External auditors' and section 151 officers' views of overview, scrutiny and challenge

Many section 151 officers from cabinet and mayoral model authorities did not agree that their overview and scrutiny arrangements are effective



Notes

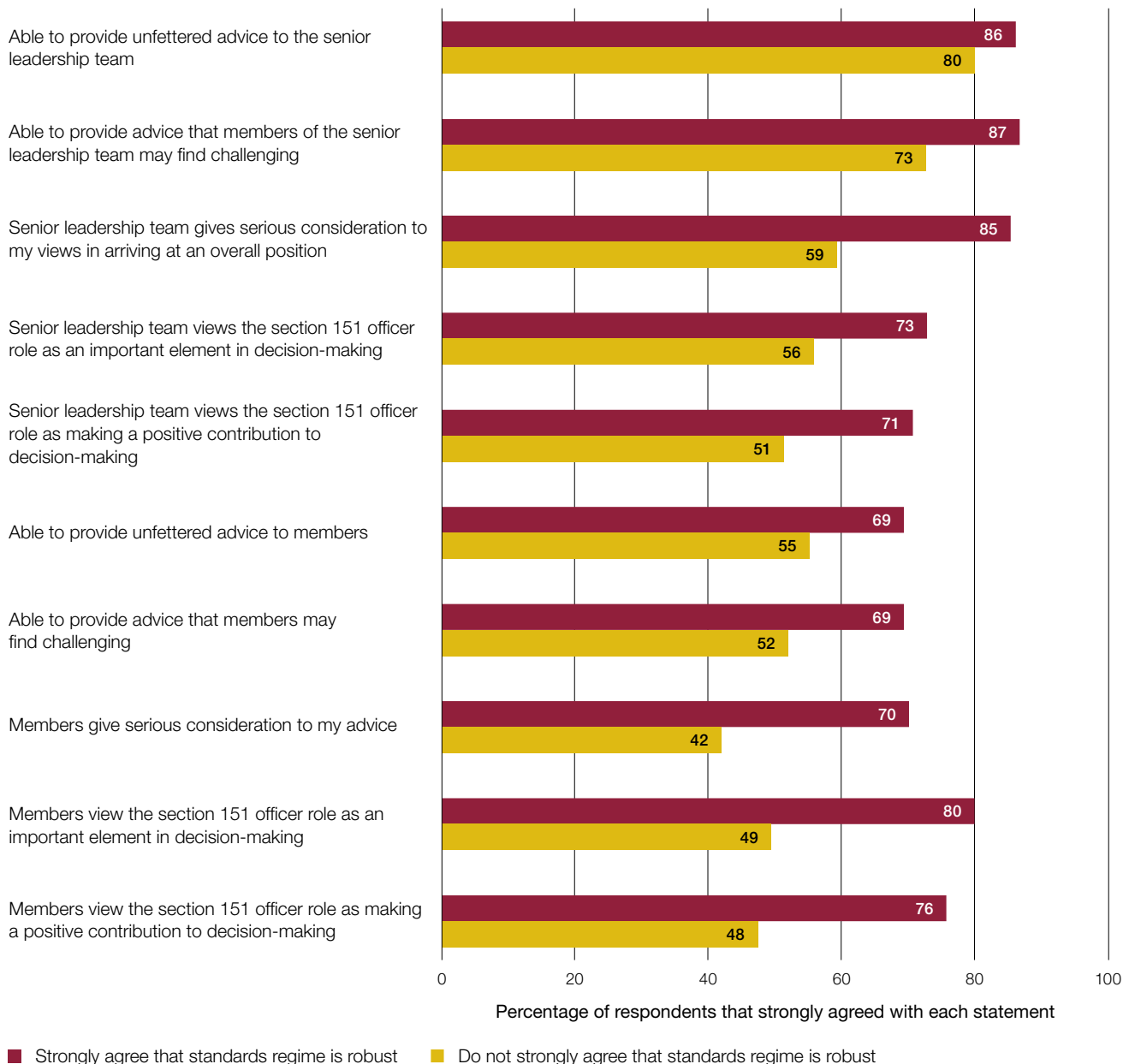
- 1 External auditors: N=197. Section 151 officers: N=141 (cabinet/mayoral authorities: N=113; committee model authorities: N=28).
- 2 To reflect differences in response rates from different types of authority (district council or single tier and county council), survey responses from section 151 officers have been weighted back to the distribution of authorities by type in the population. See Appendix Two.
- 3 Bar lengths are based on unrounded data but data labels have been rounded. Some sets of data labels may not sum to 100.

Source: National Audit Office surveys of external auditors and section 151 officers

Figure 29

Section 151 officers' views on their governance arrangements in the context of their local standards regimes

Section 151 officers that 'strongly agreed' that their authorities' standards regime was robust were more positive about their engagement with elected members and senior officers

**Notes**

- 1 N=144 (Strongly agree that standards regime is robust: N=43. Do not strongly agree that standards regime is robust: N=101).
- 2 Figure shows the percentage of respondents that 'strongly agreed' with each statement.
- 3 The differences between the responses from the two groups are statistically significant at 0.05 in relation to the 3rd, 5th, 8th, 9th and 10th statements, and at 0.10 for the 2nd and 7th statements. Differences for the other statements are not statistically significant.
- 4 To reflect differences in response rates from different types of authority (district council or single tier and county council), survey responses have been weighted back to the distribution of authorities by type in the population. See Appendix Two.

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