The future of the regulatory space in local government audit: A comparative study of the four countries of the United Kingdom

Abstract

This paper compares audit regulatory space in local government between the UK's four countries—England, Northern Ireland, Scotland, and Wales. It addresses current arrangements and practices, their historical background, and rationales for regulation in order to derive lessons for the future of public audit. It draws on the notion of regulatory space as extended through new audit spaces that specifically include public audit. The study is based on interviews with audit professionals and policy makers in each country, extensive documentation review, and observation. The comparison is structured by four themes: 'Organisation and fragmentation' concerns how the system is accredited and imbued with institutional capital. 'Independence and competition' addresses the independence of accounting firms and auditors, 'audit scope' reporting, and 'inspection' the assessments and rankings that have become part of public audit. The four countries exhibited similar emphasis on financial audit and reporting. They treated performance and fairness aspects differently.

Key words: Regulatory Space; New Audit Spaces; Public Audit; Local Government; Comparative study

1. Introduction

A key question for contemporary society is whether their regulatory spaces are fit for purpose (Ferry et al., 2019; Free & Radcliffe, 2009; Hancher & Moran, 1989; Humphrey et al., 2009; Malsch & Gendron, 2011). Regulatory space is a socially constructed abstract space, which, through regulations, is subject to the decisions of state agencies (Hancher & Moran, 1989). The debate has questioned the credibility of elites and professions, for instance, the extent to which auditors of private sector corporations require re-legitimation from political and legal institutions. An important motivation for the debate have been the problems besetting private sector audits, particularly by the Big 4 accounting firms PwC, Deloitte, EY and KPMG (Malsch & Gendron, 2011).

Whilst much is currently made of the audit crisis enveloping the private sector and capitalism, in public sector audit, too, challenges arise casting shadows over the authority of the state, public interest and democracy (Ferry, 2019). More specifically, the challenges to regulatory space have extended through new audit spaces related to the jurisdictional expansion of auditing of information and the extension of audit-type practices into new domains (Andon et al., 2014). Extending this work, Andon et al. (2015) identified public audit as a new audit space that coalesces around four themes: professional accreditation and institutionalised capital, independence, reporting, and reorientations in the mediating roles of auditing.

Still, comparatively less is known about new audit spaces in relation to institutions and practices of the contemporary public sector and their regulatory spaces (Free et al., 2020), for example, at the local government level where a great deal of public expenditure and service delivery is located (Ferry et al., 2015). In particular, there are limited comparative studies between countries, which could shed light on the challenges presented to public auditors, their independence and relevance (Johnsen, 2019)—a cornerstone of trust in public finance and expenditure in accountable democratic systems (Ferry, 2019). Public audit has come in for increased criticism, for example, concerning its failure to highlight the financial sustainability, financial resilience, and performance problems in governments and public organisations (Ferry et al., 2015; Ferry & Murphy, 2018), or the private sector failures by firms that deliver public services (Demirag et al., 2012). Indeed, there remains a large and complex expectations gap around what public audit does and for whom (Ferry, 2019). In terms of improving accountability of public bodies in the public interest, it is important to clarify their powers, where money is spent, and the outcomes for citizens (Murphy et al., 2019).

This paper develops a comparison of audit regulatory space in local government for the four countries in the UK. This is in terms of current practices and a brief history, as well as the rationale of regulation, in order to derive lessons for the future of public audit. We use the notion of regulatory space (Hancher and Moran, 1989) as extended through new audit spaces that specifically include public audit (Andon et al., 2015; Radcliffe, 1998). The study is based on interviews with audit professionals in each country, extensive documentation review, observation, and engagement with policy-making and scrutiny, including at the UK Parliament and on steering panels.

We show that the four major themes for new audit space, namely, professional accreditation and institutionalised capital, independence, reporting, and the nature of the audit role (Andon et al., 2015) are relevant in the local government audit regulatory space. We nuance them as ‘organisation and fragmentation’, ‘independence and competition’, ‘audit scope’, and ‘inspection’. Their shared heritage notwithstanding, the four countries exhibited different political priorities that played out in differently organised and fragmented regulatory spaces for local government audit. Whilst independence is inherent to all arrangements, competition in the respective regulatory spaces combines public, mixed, and private models to different degrees. Differences extend to which public and private sector actors undertake the public audit and inspection work, what work (financial audit, inspection) is performed, and how this work flows into reports to various recipients. In all cases, financial stewardship is key to audit scope. However, emphases on Value for Money (VfM) and fairness differ significantly and are subject to change. Finally, the nature of the audit role has changed over time through an extension to differing degrees into inspection type activities and, relatedly, assessments and rankings of services, organisations, and even places.

The next section introduces in more detail the notion of regulation and regulatory space, how this has been extended through research on new audit spaces including public audit, and why this is important for regulating the UK local government audit space. Section three outlines the research context of the four countries regarding central, devolved, and local government relationships, as well as political priorities. It also explains the research approach. Findings are presented in section four. Section five provides a concluding discussion explaining our theoretical contribution to regulatory space and new audit spaces, specifically focussed upon public audit through comparative local government arrangements. It states limitations of the study and implications for policy, practice, and research in terms of the future of public audit.

2. Regulatory audit space for local government

2.1 Regulatory space extending into new audit space

“Regulation is virtually a defining feature of any system of social organization […]” that is “[…] best understood through the analytical device of ‘regulatory space’” (Hancher and Moran, 1989, pp. 271-277). Hancher and Moran say that regulatory space has four key features. First, the spatial conceptualisation conveys regulatory space may be occupied. Second, the space may be unevenly sub-divided between actors. Third, there may be additional concepts nuanced to contextualisation of sectors, including practices of exclusion and inclusion. Four, the metaphor provides an image that lends itself to further elaboration, therefore, is subject to contestation. Essentially, a play of power is at the centre of this process.

Research into accounting and audit increasingly employs regulatory space, sometimes addressing the emergence and development of new audit spaces and practices (Andon et al., 2015; Collins et al., 2019). Young (1994) examined the process of change in accounting recognition practices in the accounting standard setting arena. Nicholls (2010) analysed negotiation of regulatory space for UK reporting and disclosure practices of Community Interest Companies. Related were studies of new regulatory organisations. For example, notions of regulatory space were employed to study the Public Accountants Council of Ontario (MacDonald & Richardson, 2004), Canadian Public Accountability Board (Malsch & Gendron, 2011), and Irish Auditing and Accounting Supervisory Authority (Canning & O’Dwyer, 2013). Regulatory space was also used to better understand the development of independent audit oversight in France (Hazgui & Gendron, 2015), the Australian Charities and Not-for-profit Commission’s legitimacy building (Artiach et al., 2016), and the development of the Canadian state through its Supreme Audit Institution (Free et al., 2020). This shows the usefulness of regulatory space for studying the contexts in which regulatory organisations operate. Whilst international in reach, none of these studies was primarily comparative.

Research into the increase in auditing and extension of audit-type practices into new spaces has demonstrated how regulatory space can help explore the jurisdictional expansion of auditing into new audit spaces (Andon et al., 2014). Andon et al. (2015) undertook a wider review of the emergence of new audit spaces that included efficiency and VfM auditing (Radcliffe, 1998) and performance auditing (Gendron et al., 2007).

Andon et al. (2015, pp. 1407-1416) based their analysis of new audit spaces on the themes of organising space through professional accreditation and institutionalised capital, independence, reporting, and reorientations of the audit role. Big 4 audit firms experienced mixed success in the new audit spaces. Andon et al. highlighted that independence is not necessarily a key value in new audit spaces (p. 1410).

2.2 Audit regulatory space, local government, and public audit

In the UK audit regulatory space, most attention in practice has been on the private sector audit reforms and particularly those concerning the Big 4 accounting firms, as shown by recent reviews (Brydon, 2019; Business, Energy and Industrial Strategy (BEIS) Committee, 2019; Competition and Markets Authority, 2019; Kingman, 2018). Only one of these major reviews (Kingman, 2018) touched on the public sector, and then mainly on local government, which became a side issue within its remit.

Our knowledge of contemporary public sector audit practices and the regulatory spaces they inhabit needs strengthening, especially at local government level which combines a great deal of public expenditure and services (De Widt et al., 2020). The revenue budgets of English local government account for £96.2 billion, which is about 29% of UK (£330 billion) public expenditure (*Local Authority Revenue Expenditure and Financing England*, 2019; *Spending Round 2019*, n.d.).

Ferry (2019) in a report for the Housing, Communities and Local Government Select Committee raised important problems in public sector audit, especially for local government in England, which went beyond the Kingman Review (2018). The problems with public sector audit and financial reporting has been reinforced by high profile collapses in local government such as Northamptonshire County Council (the first council in over two decades to be issued with a Section 114 notice to ban any new spend as it was effectively bankrupt). In addition, the collapse of key service providers with large public sector contracts, such as Interserve and Carillion, have also fuelled concerns (Demirag et al., 2012). The accounting and audit profession in the public sector has therefore attracted much greater scrutiny and criticism.

Sir Tony Redmond was appointed in 2019 to carry out a review into local government audit and financial reporting in England. The Redmond Report (2020) made various recommendations to strengthen the audit regulatory space of local government.

The elite players in the UK audit regulatory space are the accounting profession and the Big 4 accounting firms, with mid-tier firms such as Grant Thornton and Mazars also providing public audit services. Both the profession and these firms all operate nationally and internationally. State audit bodies such as the National Audit Office (NAO) and erstwhile Audit Commission are elites providing the audit code and audit services in the field of local government, with the

Chartered Institute of Public Finance and Accountancy (CIPFA) providing the detailed accounting principles that take account of international standards (De Widt et al., 2020; Ferry, 2019). These actors contribute significantly to the shaping of the regulatory space of audit and accounting. Their institutional function is to provide assurance through public audit which is to strengthen accountability of the state and democracy (Ferry et al., 2015).

Comparing audit regulatory space for local government across the countries in the UK holds potentially important lessons for the future of public audit. Firstly, the regulatory situation is different in each of the four countries and so affords a comparison of how and why change occurs. Secondly, studying local regulatory sites, such as for UK public audit in local government, can shed light upon contextually contingent factors that local regulators must confront. This may be in isolation for each country, the UK as a whole, or as part of efforts to translate global regulatory trends into national contexts (Malsch & Gendron, 2011). Thirdly, since 2010, the regulatory space studied coincided with the emergence of austerity across the UK that especially embraced a neo-liberal economic and political hegemony in England alongside a localism agenda whereby councils gained more power during the budget cuts. Through this, the paper can help understand in comparative national contexts the formation of new regulatory arrangements (Humphrey et al., 2009; MacDonald & Richardson, 2004; Malsch & Gendron, 2011). More generally, the study of regulatory change in auditing affords a view on audit and auditors as powerful social and economic forces in different social contexts, variously accommodating specific legitimacy communities (Ahrens et al., 2016; Cooper & Robson, 2006).

In the local government context, it is important to determine what is meant by public audit for the purposes of this paper. Recent research addresses issues relating to organising space through professional accreditation and institutionalised capital, independence, reporting, and reorientations in the nature of the audit role (Andon et al., 2015; Ferry et al., 2015; Ferry, 2019; Radcliffe, 1998).

Regarding organising space through professional accreditation and institutionalised capital, public audit research has emphasised the organising and fragmenting of the space itself. This is through the different structural arrangements, accreditations and attributes that regulatory bodies, professional auditing organisations, and auditors need to partake in public audit including for local government (De Widt et al., 2020; Ferry, 2019; Ferry & Murphy, 2015). It stands in contrast with private sector research that has been more focussed on the audit profession, private sector regulatory environment, organisational professionalisation in the Big 4 accounting firms, and broader regulatory relationships (Cooper & Robson, 2006; Humphrey et al., 2009).

Independence of audit has been a central issue of public audit research. Ferry et al. (2015, p. 350) highlighted that "(…) public expenditure needs to be communicated intelligibly to those external to the organisation (potentially in a manner similar to listed public companies, where significant private resources are dedicated through accounting standards development, organisation financial reporting and auditing by independent auditors)". They also suggested there needs to be "(…) independent scrutiny outside of legislature" (Ferry et al. 2015, p. 350). In addition, they suggested it was important "(…) that citizens were able to access independent assessments of municipality performance" (Ferry et al., 2015, p. 358). Funnell (2011) specifically highlights that auditors perform an independent role to uphold trust in public administration. Indeed in the public sector context it has been argued as important for auditors to give independent assurance that public interests are protected (de Widt et al., 2020, Free &

Radcliffe, 2009; Gendron et al., 2007), upholding democratic accountability (Ferry, 2019). However, there has been some disagreement over how extensive and independent arrangements are and should be in practice across different jurisdictions, and how much information should be disclosed to the public (Ferry & Eckersley, 2015; Funnell, 2011; Radcliffe, 2008). Questions over the independence of audit have been a potential source of vulnerability for auditing.

The audit scope of reporting has been one of the most contentious issues for public audit, including within local government. Sometimes public audit includes financial audit that gives an opinion on financial accounts and on whether VfM arrangements are in place, but without evaluating them. Inspection determines the success of VfM and the accomplishment of fairness. Inspection is frequently regarded as an extension of audit into the area of performance (Ferry et al., 2015; Ferry & Eckersley, 2019; Hopwood, 1984; Murphy et al., 2019). VfM comprises of the 'Three E's': economy, efficiency and effectiveness (Hopwood, 1984). Economy minimises resource costs and inputs. It is about spending less. Efficiency is the relationship between outputs and resources used—spending well. Effectiveness compares intended and actual results—spending wisely. In England, economy, efficiency, and effectiveness are also defined by the Local Audit and Accountability Act (LAA) 2014, s.20 (1) (c). Of recent, a fourth 'E', equity, has been brought up (Johnsen, 2005). It is concerned with the extent to which services are available to all intended beneficiaries, i.e., spending fairly. It takes into consideration differences in service provision in the context of different need (Ferry, 2019). A fifth 'E' for ethics has also recently been highlighted (Bringselius, 2018), prompted by the threats to Supreme Audit Institutions' legitimacy generated by ethical misconduct. The potential for scope in audit to become what it was not (Hopwood, 1983, 1984) affords reorientations for the nature of the audit role in the public sector as a new audit space.

Reorientations in the nature of the audit role have been increasingly controversial in the public sector. There has been research into efficiency auditing, performance auditing and VfM auditing that increased audit scope, but one of the controversial areas was to extend these forms of auditing further into the realm of inspection (Campbell-Smith, 2008). The associated assessments, ratings and rankings affected auditee perceptions (Abu Hasan et al., 2013; Ellwood & Garcia-Lacalle, 2015). In the case of Comprehensive Performance Assessment (CPA) for English local government, the performance information also affected support for incumbent politicians at the ballot box with negative assessments losing electoral support, but no significant positive electoral reward for those with positive assessments. There was therefore a direct effect on local government accountability through the local voting patterns (James & John, 2007). Indeed Skærbæk (2009) specifically highlights that public sector auditors, through financial and performance auditing, could become both appraiser and moderniser and gave recognition to the various concerns around such a dual role. Other reorientations of the nature of the audit role have been highlighted around sustainability assurance (O'Dwyer et al., 2011), online audit work such as e-commerce assurance (Gendron & Barrett, 2004), and rankings and ratings (Jeacle and Carter, 2011). It is likely these will increasingly impact on the character of the sector's publicness (Steccolini, 2019).

To frame this discussion further requires that the audit regulatory space be conceptualised in terms that are germane to the key issues arising in the public sector, but especially local government. We seek to do so with reference to the themes identified by earlier Parliamentary reports (Communities and Local Government Select Committee, 2011; Ferry, 2019).

3. Research approach

3.1 Research context

While the four countries of the UK are all subject to the UK Parliament based in Westminster, there are devolved parliaments in Northern Ireland, Scotland and Wales that have powers over certain activities. In some areas of England, local government is divided between a county council (upper tier) and a district council (lower tier) with responsibility for different services. In other areas, there is a single unitary authority instead. In total, England has 343 councils. These include 26 county councils and 192 district, borough or city councils functioning as dual tiers sharing the provision of services. In other areas, a single tier provides services including 55 unitary councils, 32 London boroughs, 2 sui generis boroughs, and 36 metropolitan boroughs. The other countries of the UK have only unitary, single tier, councils. Northern Ireland has 11 unitary authorities, Scotland 32, and Wales 22.

In England, the audit and inspection of local government was overseen by the Audit Commission. Established in 1983, it grew in stature and remit, and moved beyond its audit role into inspection work. This led to a perception that the Commission was an auditor and regulator (Abu Hasan et al., 2013). In 2010 the Conservative-led coalition government announced its abolition and scrapped centralist performance management arrangements, arguing less central control was in accordance with their localism agenda and that it would greatly reduce costs. This was an unexpected step because it had been seen as having done a great deal of good for public services (Murphy et al., 2019; Sandford, 2019, p. 15). Over the next five years, a raft of subsequent reforms led to ending the Audit Commission's inspection and assessment functions, outsourcing audits undertaken by the Audit Commission's in-house practice, and closing the Commission (De Widt et al., 2020; Ellwood & Garcia-Lacalle, 2015).

The LAA 2014 set out the new local audit regime that included provisions for abolishing the Audit Commission that occurred in 2015 and establishing new arrangements for the audit and accountability of local public bodies, including local government. These new arrangements involved the NAO setting the audit code, but local authorities appointing their own auditors. Many did this through a new procurement body, Public Sector Audit Appointments Limited (PSAA), a part of the Local Government Association (LGA).

The scope of audit fundamentally changed. The Kingman Review (2018) criticised public audit especially for prioritisation of cost over quality of audit in local government, with the associated risks, and called for a single regulatory body that can take an overview and all relevant responsibilities. A Parliamentary report (Ferry, 2019) highlighted the public interest dimension of public audit and noted its focus on financial stewardship and relative neglect of VfM and fairness in society (equity). This coincided with an announcement by the then Minister of State at the Ministry of Housing, Communities, and Local Government (MHCLG) for a review of local government financial reporting and audit arrangements to be led by Sir Tony Redmond. The Redmond Review (2020) confirmed concerns around the fragmentation of the audit market and its sustainability, making a series of recommendations for new arrangements.

In Northern Ireland, the Comptroller and Auditor General (C&AG) for Northern Ireland is head of the Northern Ireland Audit Office (NIAO), with responsibility for external audit of central government bodies and a wide range of other public sector bodies. The Local Government (Northern Ireland) Order 2005, as updated by the Local Government (Northern Ireland) Act

2014, provides that the Department for Communities may, with C&AG consent, designate a NIAO staff member as the Local Government Auditor. Once designated, this Auditor carries out statutory and other responsibilities, and exercises professional judgment, independently of the Department and the C&AG. The statutory responsibilities and powers of the designated Local Government Auditor are set out in the 2005 Order and the 2014 Act. In discharging these, the Local Government Auditor is required to carry out work in accordance with a Code of Audit Practice.

In Scotland, the Local Government (Scotland) Act 1973 established a Commission for Local Authority Accounts in Scotland, to assume responsibility for the external audit of local authorities and associated public bodies. The NHS and Community Care Act 1990 changed the official name to Accounts Commission for Scotland. The Scotland Act 1998, an Act of the Parliament of the UK, established the devolved Scottish Parliament, with local government becoming a power devolved to the new Parliament. In April 2000, Audit Scotland was established as a statutory independent public body under the Public Finance and Accountability (Scotland) Act 2000 to provide the Auditor General for Scotland and the Accounts Commission for Scotland with the services to carry out their duties. Audit Scotland's staff are around 250. It audits 32 local councils and altogether over 220 organisations. The core work is to carry out financial audits and VfM performance audits. The Auditor General looks after the Scottish Government, health, and everything in the central government sector, and the Accounts Commission are responsible for local government.

In Wales, the National Assembly for Wales (Transfer of Functions) Order 1999 transferred all powers from the Secretary of State for Wales to the National Assembly for Wales. However, Wales did not have its own auditing body with all public auditing carried out by the NAO and the Audit Commission. The Wales Audit Office (WAO) that was established with the demise of the Audit Commission takes the form of a statutory board, whose chair and three other non-executive members are appointed by the National Assembly for Wales. The other members are the Auditor General and three employees. The Public Audit (Wales) Act 2004 created the permanent role of the Auditor General for Wales and on 1 April 2005 the Wales Audit Office was created as an independent public body established by the National Assembly for Wales, after the Public Audit (Wales) Act 2004 came into effect. The Office employs around 240 staff in its offices in Cardiff, Swansea and Ewloe, secures resources, and advises the Auditor General. It audits around 800 public bodies in the Welsh Government, local government, and NHS Wales. The Office was essentially a merger between the Audit Commission and NAO branches in Wales.

3.2 Research methods

The study involved research by one of the researchers whilst a UK Parliament Academic Fellow 2018/19 and adviser with the Housing, Communities and Local Government Select Committee in 2020, and member of the Redmond Review steering panel in 2019/20, with initial research focusing on audit and inspection of English local government, later adopting a UK comparative country perspective. The research involved interviews, documentation review, and observation between 2018 and 2020.

In England, a comprehensive study involved over fifty interviews that included directors and senior managers from the main organisations operating in the regulatory space including the MHCLG, Parliament Select Committee for Housing, Communities and Local Government, NAO, CIPFA, PSAA, Financial Reporting Council (FRC), professional accounting firms and local authorities. In the other countries of the UK, the lead auditor and their deputy with responsibility for Local Government at the Supreme Audit Institution were interviewed on audit and inspection. The interview questions came out of extensive documentation reviews that also served to corroborate emerging findings or challenge them. The documents reviewed included histories of the bodies, legislation, (for example, the Well Being of Future Generations Act 2015 in Wales; LAA 2014 in England), documents reflecting on the implementation of legislation, audit codes and frameworks, guidance, assurance reports, public reporting programmes, annual reports, council audit letters, news articles, websites, and social media, among other things.

In England, observation involved visits to Parliament, MHCLG, regulatory bodies, accounting firms and local authorities where practices around audit policymaking and practices were observed. For Scotland and Wales, online observation of the devolved Parliaments was conducted. The Northern Ireland Assembly (devolved Parliament) was not visited. This is because it was in a period of suspension between January 2017 and January 2020 due to policy disagreements.

During the field research, data was analysed and organised into various main themes, following interpretive research practices (Ahrens & Chapman, 2006). The themes included history of audit arrangements, structure and organisation, audit independence, audit scope, inspection, competition, and implications for accountability and democracy, that had also been highlighted in earlier reports (Communities and Local Government Select Committee, 2011; Ferry, 2019). The themes were woven into different theoretical narratives around audit and inspection to think through why changes emerged and how processes evolved.

4. Findings

The research found various differences between the public audit regulatory spaces set out in Table 1.

Table 1 - Comparison of public audit regulatory spaces

	England	**Wales**	**Scotland**	**Northern Ireland**
Organisation and Fragmentation	LAA 2014 abolished the Audit Commission. The new arrangements are fragmented – no single agency in England. The system is complex – NAO, CIPFA, PSAA, FRC and recognised supervisory bodies (RSB's) (Institute of Chartered Accountants in England and Wales (ICAEW) / Institute of Chartered Accountants of Scotland (ICAS)) all have roles[1].	WAO is responsible for the audit of local authorities in Wales. Single audit agency that covers all local audit, effectively combining the previous roles of the NAO and the Audit Commission.	Accounts Commission is responsible for the audit of local authorities in Scotland. Single audit agency that covers all local audit, effectively combining the previous roles of the NAO and the Audit Commission.	The NIAO is responsible for the audit of local authorities in Northern Ireland. Single audit agency that covers all local audit.

[1] The duty to license and register local auditors who will carry out the audit of local government and health bodies is a statutory function delegated to RSBs by the FRC. As part of this duty, under the FRC's the local auditors (registration) instrument 2015 FRC 02/2015, RSBs are required to keep a register of firms eligible for appointment as local auditors and individuals eligible for key audit partner status. The two RSBs for local audit in England are the ICAEW and ICAS.

Auditor Independence and Competition	Audit Commission abolished. No local public audit service. An individual local authority can appoint their own auditor, but in reality most opt in to the PSAA scheme. All auditors are private sector firms.	WAO. Local public audit service but use private firms.	Audit Scotland. Local public audit service but use private firms.	NIAO. Local public audit service but use private firms.

Audit Scope and Coverage of the Code	Opinion on the financial statements, and auditor statutory powers Wider scope dimensions - VfM conclusion is whether local bodies have proper arrangements for securing VfM, not whether VfM has been delivered.	Opinion on the financial statements, and auditor statutory powers Wider scope dimensions – Reports on how well individual local authorities are planning for improvement, impact audits of performance and VfM, New responsibilities under Wellbeing of Future Generations Act, and sustainable development lens.	Opinion on the financial statements, and auditor statutory powers Wider scope dimensions - Now requires auditors to reach conclusions on the effectiveness of Financial management, Financial sustainability, Governance and transparency, and VfM. Best Value audits carried out in each council over a 5 year cycle.	Opinion on the financial statements, and auditor statutory powers Wider scope dimensions - Looks at performance work and public interest but VfM only at a central government level, which reflects that many services that are based in local government in the other UK countries are actually being delivered by central government in Northern Ireland.[2]

[2] Considering the Welsh sustainability dimension of their framework but no current provisions in place.

Inspection	Under the Audit Commission's Comprehensive Performance Assessment (CPA) (2005-09) and Comprehensive Area Assessment (CAA) (2009-10) regimes the auditors made an *overall assessment of a local authority*[3] using inspection information from various bodies, including the Office for Standards in Education, Children's Services and Skills (Ofsted) for education and the Care Quality Commission (CQC) for social care. Local authorities were rated and ranked in league tables. Now Ofsted and CQC still perform inspections, but auditors do not use them and there is no overall performance management regime.	Since 2011, there are four inspectorates that cover audit, care, education, and health through a strategic programme of joint and collaborative working. There is also a memorandum of understanding between the Auditor General for Wales and the Future Generations Commissioner regarding the 2015 Act.	There is no inspection, but this somewhat depends on definition. Services are inspected and Best Value still covers service performance, but unlike the former use of an eight-box scoring matrix to rate councils there is no rating now and there never were league tables.	Inspection is picked up at the central government level and not local government. This reflects the different size, scale and structure of local government in Northern Ireland compared to other parts of the UK.

4.1 Organisation and fragmentation

The organisation of public audit arrangements is important to ensure the service is fit for purpose to maintain public confidence and trust in the use of public resources. In England, the organisation of public audit for local government lay with the Audit Commission, which set the audit code, appointed auditors and in a majority of cases provided the audit service through

[3] Through its quality of life for residents indicators the CAA could be seen as proxying for fairness without directly measuring fairness.

District Audit. However, this changed with the LAA 2014 (and transitional arrangements). The Audit Commission was abolished and the district audit service ceased to exist.

Under LAA 2014 in England there were new audit arrangements. This included a new role for the NAO who became responsible for setting the audit code and reporting on local government as a sector, with CIPFA continuing to provide the detailed accounting principles that take account of international standards. Local authorities were permitted to appoint their own auditors once the existing contracts expired. The PSAA took on existing Audit Commission contracts in 2015, and the Secretary of State for Communities and Local Government recognised PSAA as ‘appointing person’ in 2016. The PSAA had 98% of relevant local government bodies opt in to its arrangements. New contracts came into effect, with significant fee reductions and what, the PSAA argued, was a renewed focus on audit quality. This has been heavily contested by accounting firms and others in the regulatory space (Ferry, 2019; Kingman, 2018; Redmond, 2020). The FRC became responsible for oversight of the regulation of auditors of local authorities in England, mainly mirroring the framework for company audits. Under these arrangements, local authorities appoint accounting firms, which must be registered with a Recognised Supervisory Body (RSB) that has been recognised by the FRC for local audit. These accounting firms are subject to regulation by the RSB. The FRC’s Audit Quality Review team monitor the local public audits carried out by auditors through the new regulatory arrangements. This means the FRC now have oversight of the public sector regulatory space as they do in the private sector.

The audit arrangements were heavily criticised in the Kingman Review (2018). It specifically highlighted a prioritisation of cost over quality of audit in local government with a very clear risk of allowing weak and limited audit disciplines to prevail. The Review recommended that arrangements for local audit should be fundamentally rethought, bringing together in one place all relevant responsibilities, so that a single regulatory body can take an overview. For example, across the important boundaries between health and social care there is now no coherent audit oversight, with NHS bodies (health) and local government (social care) appointing their own separate auditors.

The Redmond Review (2020) made a clear recommendation for creation of a new overarching body in the form of an Office of Local Audit Regulation (OLAR) to oversee, procure, manage and regulate the external audits of local authorities in England, to be supported by a Liaison Committee comprising key stakeholders and chaired by the MHCLG. If accepted, some of the existing regulatory responsibilities that currently sit with ICAEW, FRC, PSAA and the NAO would transfer to this new body. CIPFA who were not criticised concerning the audit regulatory arrangements would continue to be responsible for accounting principles in local government. While many of the Redmond Review recommendations could be implemented without the need for primary legislation, the establishment of a new regulatory body would require a change in the law through primary legislation. The Government response in December 2020 to the report by the Redmond Review accepted over 60% of the recommendations, but left OLAR subject to further consideration. In summary, the arrangements in English local government are highly fragmented across different bodies with different roles and objectives.

The fragmentation in England is in stark contrast to the other three countries of the UK, in which public audit is arranged through one body. In Wales the WAO produce the code and procure the accounting firms for local government and health. In Scotland, the Accounts Commission do the same for local government, with Audit Scotland, of which the Commission are part, providing the audit code. In Northern Ireland, The NIAO produce the code of audit practice, appoint auditors, and conduct two thirds of audits themselves.

4.2 Auditor independence and competition

Auditor independence refers to the independence of the auditor from the audit client, so they can carry out their work freely in an objective manner. The degree to which countries operate public or private audit models and who procures audits arguably affects auditor independence. However, independence needs to be balanced against benefits from competition, which is concerned with the audit expertise on offer and the sustainability of the market for this expertise. There are important interdependencies between these two characteristics of auditor independence and competition in local government audit, and both are fundamental to the creation of trust in the public audit function.

England, under the Audit Commission, operated a public audit model procuring audit services for all local authorities. This arguably strengthened auditor independence, as the local authority client could not unilaterally remove their auditor. During this time, the Commission provided 70% of audit services to local government through its own District Audit service, building up internal capacity and capability. The other 30% of public audits were outsourced to private accounting firms for additional external capacity and capability, with ten providers operating in the local government audit market.

Following the abolition of the Audit Commission under the LAA 2014 the public audit model ceased to exist and 100% of local audits were to be subject to competition between private accounting firms in the market. However, PSAA was appointed by the vast majority of local authorities to procure their auditor, with only a handful of local authorities procuring their own. By 2018, the number of firms in the market had reduced to only five, dominated by Grant Thornton and EY. Mazars (which subsumed the Audit Commission's in-house audit team) increased their share but were some way behind in third place. Surprisingly perhaps, only two of the Big 4 accounting firms have a presence, one with a market share of less than 10%. Key drivers for competition changes were the narrowed scope of audit and fee reductions enforced by PSAA to help local government save during austerity. In part, this was due to the ways in which the PSAA structured the lots for which audit firms could bid.

There was growing concern that lower audit fees would undermine audit quality. This was despite costs being lower, due to scale advantage, and some of the limits of the English system of public audit. For example, despite efficiency gains, EY highlighted in 2019 that due to staff shortages they could no longer fulfil the audits for the existing fee to time and quality.[4] This led to questions on the underlying sustainability of the audit market and current public audit arrangements (Ferry, 2019). By moving away from the public audit model it was hoped that competition would increase (Communities and Local Government Select Committee, 2011). Instead, competition is now much reduced and the sustainability of the public audit market has been called into question (Ferry, 2019).

The Redmond Review (2020) highlighted the importance for competition and sustainability in the audit market of English local government, along with ensuring audit independence and quality. It recommended revisions to the current fee structure for external audits to address shortcomings around quality and sustainability of competition, with all eligible accounting firms being able to tender for local audits and getting proper consideration for

[4] https://www.room151.co.uk/brief/staff-shortages-at-ernst-young-prompt-audit-delays/
https://www.lgcplus.com/finance/revealed-19-face-audit-delay-due-to-ey-staffing-issues-03-06-2019/

appointment. However, there was no call for a recreation of a public audit model along the lines of the previous Audit Commission and District Audit Service. Sheen (2020) argues that the bigger loss has not been the Audit Commission but the District Audit Service, with its ethos of public service and a dedication to local government that the accounting firms will never come close to matching.

The other three countries have retained a public audit model with the state controlling the service, and a much more limited amount of marketisation. Wales provide 80% of the service in-house, but are in the process of changing this to 100%. This is because during previous contracting rounds, accounting firms had competitive internal costs. Now the view is that outsourcing can no longer be justified because the firms want higher fees reflecting problems with the audit market and corporate failures. Concerns with audit quality have arisen, and audit fees were recovered following poor audits.

In Scotland, about a third of the audit work by value is contracted to private firms, across all sectors. There have been around six or seven firms involved including the Big 4 and some medium-sized Scottish firms. In the last procurement exercise, PwC no longer contracted and some smaller firms indicated that they might exit the market, given the risk and reward trade offs concerning bid costs, expertise, risk levels and sustainable profit margins. This raises questions about how to maintain competition during the next procurement round.

In Northern Ireland, four of the eleven local authority audits are contracted out. The auditors are Deloitte and ASM, a Northern Irish firm. They provide mainly financial audits but now also some performance work.

4.3 Audit scope

The audit scope of public audit arrangements is important to ensure an appropriate covering of financial stewardship, performance (VfM), and fairness in use of public resources (Ferry, 2019).

In England, under the Audit Commission there was a financial audit and VfM through inspection. Additionally, CAA held local public services, including councils, health bodies, police forces, and fire and rescue services, collectively to account for improving quality of life for residents. This was not the same as fairness through inspection but proxied it (Communities and Local Government Select Committee, 2011). Following abolition of the Audit Commission, the LAA 2014 only allows for a financial audit and opinions on whether arrangements are in place for VfM (not whether VfM has been delivered). There is now no consideration of fairness in use of resources. In addition, the NAO only undertake a sectoral study of local government. There was no direct link between local auditors and the national audit agency. This may limit the potential for auditors to give early warnings on specific authorities (Ferry, 2019). However, regarding audit scope, the NAO implemented changes through the 2020 Audit Code of Practice so local auditors could feed information to the NAO, especially on financial resilience and VfM matters. The Redmond Review (2020) endorsed the changes, although the VfM arrangements remain at a threshold below the rigorous assessment of previous inspection regimes.

The other three countries also undertake a financial audit, but with different arrangements for VfM and fairness. In Wales, the Auditor General’s role includes examining how public bodies manage and spend public money, including VfM in the delivery of public services. The Auditor

General publishes reports on that work, some of which are considered by the National Assembly for Wales' Public Accounts Committee. The Auditor General also reports every year on how well individual local authorities are planning for improvement. The opinion on the financial statements is therefore supported with wider scope reports, including impact audits of performance and VfM, new responsibilities under Wellbeing of Future Generations Act 2015, and sustainable development. Fairness concerns are thereby built into the regulatory space.

In Scotland, the opinion on the financial statements is supplemented with assessments of the effectiveness of financial management, financial sustainability, governance, transparency, VfM, and best value audits on 5-year cycles. In addition to the work on individual councils there are also annual performance audits of sector-wide VfM, including a financial overview (November) and performance overview (spring) of individual service areas and wider policy areas that affect local government.

In Northern Ireland, the scope of external audit in local government is extended to cover not only the audit of the financial statements, but also the audited bodies' arrangements for securing economy, efficiency, and effectiveness in its use of resources, as well as councils' performance improvement responsibilities. The Code of Audit Practice focuses on how the Local Government Auditor should carry out the wider range of functions and audit of the financial statements in accordance with international auditing standards issued by the FRC. The Local Government Auditor can make a Public Interest Report on any matter coming to notice in the course of an audit, and, if considered appropriate, conduct a Special Inspection of a local council in relation to its performance improvement responsibilities. VfM powers exist but there are no VfM reports in local government. Larger services such as education, social care, and housing are operated at a central government department level, and VfM is therefore assessed at that level. Compared to England, services are more centralised in Northern Ireland, reflecting the different size and scale of the countries and local government. Fairness is not assessed, but the Welsh framework is currently being considered in this regard.

The audit scope is narrowest in England, conducting only financial audit and considering if VfM arrangements are in place but not how well they work. Wales and Scotland report on whether VfM is achieved in each local authority. Northern Ireland reports on performance and public interest, but VfM reports only exist at a central government level. Fairness is reported on in Wales through the Wellbeing of Future Generations Act. Scotland reports on sustainability. Northern Ireland is considering the Welsh framework with no current arrangements in place. England has not looked at quality of life for residents, which was a proxy for evaluating fairness, since scrapping the CAA with the abolition of the Audit Commission.

4.4 Inspection

Audit may or may not be accompanied by a broader inspection regime. In England, the Audit Commission ran an extensive inspection regime that evolved and became more complex. From 1997, the New Labour government created several performance management frameworks: Best Value 1999-2002 was at a service level, CPA 2002-2008 was at an organisation level, and CAA 2008-2010 was at a geographic area place level. Best Value Reviews used the 4C's (challenge, compare, consult, and competition) for individual services or parts of services planned on a 4 to 5 year review cycle. The CPA looked not only at individual services, e.g., Education, Social Care, Housing, Waste Management, etc., but the local government organisation, including management capability, future direction of travel, and use of resources. The use of resources was broken down into five areas (financial reporting, financial management, financial standing, internal control, and VfM). Local authorities were given overall scores and ranked in public league tables. Higher ranked authorities were promised freedoms and flexibilities. Underperforming ones were visited by further inspections and faced the prospect of intervention. The rationale behind the CAA's geographical area place level focus was to see how local authorities operated with other public sector partners, such as the NHS, police, and fire services. Place-based budgeting was to be employed to enhance accountability and break down organisational and service 'silos'. Here, VfM was supplemented by concerns with fairness, comparing equity between places. This framework was scrapped by the Conservative-led coalition government before it could fully develop.

For England, the inspection regimes created by New Labour were abolished along with the Audit Commission as part of the Conservative localism agenda that advocated less centralisation and less monitoring of local government by central government. Significant cuts to local authorities' budgets were also seen as an important reason for the reduction in central monitoring. Inspection continued by external bodies of services, notably, Ofsted, as a non-ministerial department of government, and the CQC as the independent regulator for health and social care in England. Best Value Reviews of local services, organisational assessment of local authorities, and place-based assessments ceased. Concerns arose that areas that retained inspection, e.g., social care, may get prioritised by local government, and other services, e.g., waste management, neglected. Local government itself had lobbied for less inspection.

The Redmond Review (2020) suggested that OLAR as a new regulatory body would be small and focused and not represent a body that has the same or similar features as the Audit Commission including for inspection. In particular, presently, it is not envisaged that there would be a return to inspection regimes such as CPA and CAA. However, it is recommended regarding financial resilience of local authorities that MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained. Also it was recommended that key concerns relating to service and financial viability be shared between Local Auditors and Inspectorates including Ofsted and CQC prior to completion of the external auditor's Annual Report. In addition, it was recommended there will be a report at the end of the financial year giving an indication of local authority total expenditure broken down into a yet to be determined categorisation of costs and what was accomplished for them.

The other three countries have various forms of inspection, but none to the extent previously conducted by the Audit Commission. In Wales, since 2011, there are four inspectorates, the Auditor General and WAO, Care Inspectorate Wales (CIW), Her Majesty's Inspectorate for Education and Training in Wales (Estyn), and Healthcare Inspectorate Wales (HIW). These cover audit, education, care, and health through a strategic programme of joint and collaborative working. There is also a memorandum of understanding between the Auditor General for Wales and Future Generations Commissioner regarding the 2015 Act. The Scottish feel that they have no inspections, but this appears a question of definition. Services are inspected, for example, by Education Scotland and the Care Commission. Best Value still covers service performance, but now without a formerly used eight-box scoring matrix to rate councils. Best Value in Scotland also never used league tables. In Northern Ireland, because of centralised services, inspection is carried out at the level of the central government and not local government.

Inspection used to be much larger and complex in England than in the other countries, but now it is much reduced. Scotland and Wales have retained service level assessment, and their assessment remains more joined up. Northern Ireland inspection takes place at a central level, reflecting different structures and size.

5. Concluding discussion

The concluding discussion will set out the theoretical contribution of the paper as well as limitations of the study. It will then consider the implications for policy, practice, and future research.

The theoretical contribution relates to the notion of regulatory space (Hancher and Moran, 1989) as extended through new audit spaces that specifically include public audit (Andon *et al.*, 2015; Radcliffe, 1998) as a means to underpin the state, public interest and democracy (Ferry, 2019). This is in contrast to many regulatory space papers that focus on the interplay between corporations in the private sector and capitalism. To do so, this research provided a comparison of audit regulatory space in local government for the four countries in the UK. This was in terms of current arrangements and practices, their historical background, and the rationales for regulation in order to derive lessons for the future of public audit.

Conceptually, the four major themes for new audit space—professional accreditation and institutionalised capital, independence, reporting, and the nature of the audit role (Andon et al., 2015)—were found to be inherent in local government audit regulatory space. They assume a more nuanced form, however. A simplified set of themes from those that had been used by earlier reports (Communities and Local Government Select Committee, 2011; Ferry, 2019), namely, *organisation and fragmentation*, *auditor independence and competition*, *audit scope*, and *inspection*, structured our account of the interplay between the main trends that characterised the different regulatory spaces. Essentially, *organisation and fragmentation* revealed how the system is accredited and imbued with institutionalised capital as being fit for purpose, *independence and competition* took account of the independence of accounting firms and auditors, *audit scope* reflected the associated reporting, and *inspection* addressed how assessments and rankings became part of the nature of the audit role. The fact that we could use those themes effectively in a comparative study suggests that they might also be suitable as a framework for future studies of the regulatory spaces in other countries for public audit across local government, but also other parts of the public services.

In terms of the comparison of countries, the paper has shown that despite their shared heritage the countries have different political priorities and notions of regulatory space and new audit space regarding their local government audit institutions and practices of public audit. Theoretically, the regulatory space was dependent on audit arrangements embracing institutions and practices reliant on the organising or fragmenting nature of the audit space. In England under the Audit Commission there was a single over-arching body that afforded the institutionalised capital and professional accreditation of what it was to be a public auditor and what a public audit constituted. This was fragmented with the abolition of the Audit Commission and a variety of bodies having to perform different aspects of the role. There was an increasing marketisation to the process (accompanied by reduced competition). In the other countries, there was a single audit agency. Organising remained more centralised and public sector orientated, regarding institutionalised capital and professional accreditation. Independence of the audit was fundamental to all the jurisdictions and their arrangements. However, the levels of competition in the respective regulatory spaces combined public, mixed, and private models of audit to different degrees. This was in terms of combining who undertakes the public audit and inspection work, what work is performed, and how this work will flow into particular reports to various recipients. In all jurisdictions in this study, audit scope emphasised financial audit and the associated stewardship role. However, the levels of VfM and fairness differed significantly and were subject to change. Finally, the nature of the audit role has changed over time through an extension—to differing degrees—into inspection type activities involving assessments and rankings of services, organisations, and even places. This has proved controversial with the auditor becoming an appraiser and moderniser, leading to challenges of their independence and role.

Methodologically, many studies of regulatory space and new audit spaces have covered episodic events. Fewer were longitudinal in nature and then primarily historical. This paper is important in terms of affording a comparative study of the new audit space of public audit with a contemporary focus. The comparative nature of the study afforded insights to ensure these themes were applicable across cases and to also better understand how the same themes can take on similar or very different turns depending on how they are acted upon. Emphasis—to varying degrees and with changes over time—can be placed on different themes. Mirroring Hopwood's (1983, 1984) earlier reflections on accounting and also its changing role in the public sector, 'auditing' has the potential to become something it was not in the context in which it operates. It becomes implicated in the financial and performance aspects of accountability but also, ultimately, in fairness and democratic accountability (James and John, 2007; Ferry, 2019).

For the future of public audit policy making it is important to recognise the main themes of the audit regulatory space, which we expect play a central role in future. This is because it is important to understand that these themes have the potential for audit to become something it is not with implications far beyond the technical nature of the financial audit, towards VfM and fairness. As a result, this debate holds significant implications for the machinations of the state, public interest, and democracy.

Regarding practice, it is necessary to recognise the varied implications for citizens, users, politicians, managers, and auditors of the ways in which these themes unfold in practice. Key issues for citizens concern democratic accountability, locally as well as nationally. These are related to the potential of transparency and accountability that audited information offers to its users. Politicians notice the varying degrees to which particular regulatory spaces offer them opportunities to connect with very different political programmes. For local government managers a key question is the extent to which those regulatory spaces trade off central oversight and reporting with opportunities for local flexibilities and customisation of performance management. Auditors, lastly, will find great variability in the ways in which regulatory spaces challenge and nurture different elements of their expertise. For these groups, specific regulatory spaces can give rise to very different outcomes and unexpected effects.

As a first step towards the comparative study of audit regulatory space in different countries, this study focuses on the legal powers that constitute the different UK regulatory contexts. By giving an overview of the development of those legal powers we paint a picture of the relative emphases in the different countries and also outline the directions of travel for audit regulation. An important limitation, however, lies in our omission of the political motivations at the centre of different regulatory spaces (Hancher & Moran, 1989), beyond noting the different concerns with fairness and equality and some of the political rhetoric around competition. Given the centrality of the political for Hancher & Moran's seminal work, and the obvious significance of the regulatory spaces we studied for the politics in the different parts of the UK—and the UK as a whole—the specific interweavings of regulation and politics would clearly be suggestive of further comparative research.

Additional suggestions for future research would include arrangements for other public services outside of local government, comparative projects with countries that follow the Westminster model or other countries that follow different models. Such studies could extend into the private sector, looking, for example, at the different ways in which accounting firms approach clients in the public and private sectors.

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