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Debate: Can audit reduce information asymmetry? The case of English local government

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Conceptualizing financial transparency

The financial transparency of public bodies is frequently 'taken for granted' and 'not fully investigated' (Langella et al., 2023, p. 585). However, as Van Helden et al. (2023) argue, the danger of 'accounting information manipulation' is a real and present one across government. It potentially invites a whole series of negative outcomes, from corruption and mispending to the wrongful allocation of resources (Van Helden et al., 2023; Bradley, Favotto, et al., 2023).

Transparency through audit is often touted as a simple solution (Van Helden et al., 2023). Yet any attempt at public audit faces profound information asymmetries, exacerbated by a host of individual and organizational ethical tensions (Van Helden et al., 2023). For politicians and political actors, there are powerful temptations to manipulate either the data itself or the interpretation of them (Van Helden et al., 2023). This article asks whether and how transparency audit can reduce such asymmetries, and deter the temptation to manipulate.

Transparency over the last few decades has entrenched itself within political discourse as a kind of universal good (Wood & Aronczyk, 2020). It is, moreover, an idea that is universally supported across the political spectrum as a means of opening up institutions to greater public scrutiny, with a series of beneficial effects (Birchall, 2014). In this view, transparency is a 'window' and 'assumes an almost classic, linear communication process' (Christensen & Cheney, 2015, p. 75).

In theory, transparency 'might be viewed as both an *effect* of auditing and a *prerequisite* for auditing' (de Fine Licht, 2019, p. 233). As an agency relationship, such transparency *should* deter ethical misbehaviour in two ways: by making public bodies and actors feel 'watched', and thus less likely to make poor decisions, or by then catching them out if they do so. Data audit could then have a wider democratic 'checking' effect, as it flows out from the attentive audience (of users) out to the inattentive audiences (in the electorate) (Arnold, 1990).

However, a newer research strand challenges this linear process, and argues that transparency is, as Van Helden et al. also argue, profoundly political. Transparency is less a window and more a prism—allowing endless 'reconfigurations' (Mikkil, 2019; Flyverbom, 2020, p. 17). Transparency tools, such as audit, are often negotiated and can create 'uncertain sites of ethical contestation' (Heimstädt & Dobusch, 2020, p. 8). While transparency is

often spoken about as a neutral good, it can and is 'performed strategically' or even 'weaponized' (see Wood & Aronczyk, 2020, p. 3, 7; Fenster, 2015).

Therefore, to work, audit must be powerful enough to overcome the political temptations to 'distort'—whether intentional or unintentional (Van Helden et al., 2023, p. 2). It also needs to be of sufficiently robust strength to overcome the obstacles in the public sector around resources and timing (see Ferry, 2014). To serve as a check on asymmetry, 'transparency alone' is not enough, and any openness mechanism needs 'breadth' of coverage and sufficient 'access' (Langella et al., 2023, p. 586). Evidence shows that any audit tool must be subject to a 'publicity' condition (capable of reaching and being received by audiences) and an 'accountability condition' (subject or connected to a sanctioning mechanism) (Lindstedt and Naurin, 2010).

Monitoring through audit? The case of English local government

Local government in England contains some of the oldest provisions for audit and monitoring public bodies, through a right to inspection dating back to the Poor Laws of 1844 (Moss, 2020). Layered on top of this are rights around access to meetings and, more recently, Freedom of Information and Open Data reforms. After the abolition of the Audit Commission, English local government has relied on external private sector audit bodies (Ferry & Ahrens, 2022). Legislation in 2014 and 2017 extended local government audit by giving citizens and journalists the right to not only look over local authorities accounts, but to register objections to them.

The hope is that the mixture of formal and 'informal' mechanisms create a series of upward pressures to reduce asymmetries (Ferry & Murphy, 2018). Taken together, in theory, they should create a powerful set of tools for monitoring and accountability by the public and other informal auditors. These should have a series of anticipatory and disciplinary effects on those being observed (Strathern, 2000).

However, research shows that the direct transparency pressures are not powerful enough to overturn ethically poor behaviour or reduce asymmetry. Inspection and audit is happening in particular places and local groups (Research for Action, 2021). Yet most councils get few or no inspections and face little 'anticipatory pressure' (Bradley, Heald, et al., 2023). Those that do face a set of 'subjective'

choices, and there can be a spectrum of possible responses, from 'compliance' to 'reluctant co-operation' to 'outright resistance' (Bradley, Heald, et al., 2023, p. 261). Some do choose resistance and obfuscation. One project, which documented '155 resident interactions with external auditors and local authorities', found that 'residents' requests to inspect the accounts are often obstructed' with 'deliberate attempts to conceal information' (Research for Action, 2021, p. 1). The audit powers are neither broad enough nor accessible enough to overcome the temptations to obfuscate (Langella et al., 2023)

The problem links in turn to a clear 'accountability gap' opening up around financial openness (Research for Action, 2022). For the public, local government accounts are increasingly complex and publication is subject to severe delays (Redmond, 2020; PAC, 2023). Even where problems over finance do come to light, it is unclear what channels the public can use to then raise the alarm and bring accountability (Bradley, Heald, et al., 2023). Ironically, growing openness without clear enforcement or sanctions may make 'local accountability... weaker, rather than stronger' (Ferry & Eckersley, 2015, p. 208).

The uneven picture of pressure is complicated by context. The Redmond Review identified the 'fragmentary' nature of the local audit system in England, caught between private sector slowdowns, mixed internal audit mechanisms, and uneven public interest (see Ferry and Midgley, 2023). Austerity measures and increasingly complex local government finance arrangements, where councils have been encouraged to invest in new areas, have made piecing together a clear picture almost impossible. On top of this, English local government is, in a more hidden way, trapped by a powerful pull of 'fiscal centralism' (Bradley, Heald, et al., 2023).

While the direct impact may be limited, the indirect effects, especially after the event, may be more effective. There are some signs that local authorities do respond to audit recommendations from private sector bodies (Research for Action, 2022). Local journalists are frequent users of the various sources, and have been at the forefront of exposing poor behaviour and poor performance once it has happened (Bradley, Favotto, et al., 2023). There is also strong evidence that audit data does reach voters who have then punished poor-performing councils in local elections (Bentley, 2023). There may be a question around salience, as since 2020 onwards the informal and formal 'distressing signals' sent by authorities are themselves sources for greater scrutiny (Bradley, Favotto, et al., 2023, p. 260). Audit can reduce asymmetry and deter, but only, it appears, after the event.

Disclosure statement

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