



Department for  
Communities and  
Local Government

# Government Response to the Pre-legislative Scrutiny Report by the Draft Local Audit Bill Committee

Presented to Parliament by the Secretary of State for Communities and Local Government  
by Command of Her Majesty

April 2013





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CM 8566

£6.25

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ISBN: 9780101856621

Printed in the UK by The Stationery Office Limited  
on behalf of the Controller of Her Majesty's Stationery Office

ID 2544817 04/13 29073 19585

Printed on paper containing 75% recycled fibre content minimum.

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# Introduction

1. The draft Local Audit Bill was published on 6 July 2012 for consultation and pre-legislative scrutiny.
2. On 17 September 2012, an ad hoc Committee of the House of Commons was established to undertake pre-legislative scrutiny of the draft Local Audit Bill. Its remit was to consider whether the provisions contained in the draft Local Audit Bill would meet the Government's objective of creating a more efficient and transparent local audit system with appropriate safeguards for protecting the integrity of the audit system and ensuring accountability to local people.
3. The Committee consisted of nine MPs from four Select Committees<sup>1</sup> with an interest in the draft Bill and was chaired by the Rt Hon Margaret Hodge MP, Chair of the Public Accounts Committee.
4. The Committee published its report and recommendations on 17 January 2013<sup>2</sup>. The Government is grateful to the Committee for its consideration of the provisions in the Bill. The recommendations cover various issues, which the Government has considered carefully, alongside the responses received to the public consultation on the draft Bill (a summary of the responses to that consultation was published on 24 October 2012<sup>3</sup>).
5. As far as possible, this response addresses each recommendation, following the order of the Committee's report. However, in some instances recommendations have been grouped together as they raise the same or similar issues. The paragraph numbers given at the end of each recommendation are those used by the Committee in its report.

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<sup>1</sup> The other members of the Committee included representatives of the **Public Accounts Committee** – Richard Bacon MP (South Norfolk), Meg Hillier MP (Hackney South and Shoreditch) and Ian Swales MP (Redcar); **Communities & Local Government Select Committee** – Clive Betts MP (Sheffield South East), Mark Pawsey MP (Rugby) and Heather Wheeler MP (South Derbyshire); **Health Committee** – Valerie Vaz, MP (Walsall South) and **Home Affairs Committee** – Mark Reckless MP (Rochester and Strood)

<sup>2</sup> Draft Local Audit Bill Committee: Pre-legislative Scrutiny Report – published 17 January 2013:

<http://www.publications.parliament.uk/pa/cm201213/cmselect/cmdraftlocaudit/696/696.pdf>

<sup>3</sup> Draft Local Audit Bill: summary of consultation responses – published 24 October 2012:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/11087/2242719.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/11087/2242719.pdf)

# General recommendations

## Projected savings

**The Government should include in the impact assessment an assessment of the savings made from abolishing the Audit Commission in its residual form. In order to make accurate assessments of the total savings made by the draft Bill itself, the Government should use figures from 2011/12 as a baseline. Given uncertainties about the figures in the impact assessment and the cost of local body compliance, we recommend that a new financial impact assessment is published alongside the Bill.**

**(Paragraph 8)**

6. The Government will publish an updated impact assessment alongside the final Bill, incorporating the most up to date figures on the Audit Commission's costs. However, the Government does not intend to change the baseline to 2011/12, as 2009/10 was the last full year of the Audit Commission's operation before the Government's programme of reform began in 2010, including its decision to abolish Comprehensive Area Assessment and the Audit Commission. The impact assessment assesses the costs and benefits of the whole package of reforms and Table 4 shows all costs and savings each year, over a ten year period, including the level of savings in the run up to and after the closure of the residual Audit Commission.
7. The Government has been working with the Audit Commission and other partners to ensure that the figures in the impact assessment are as accurate as possible. The estimated level of savings in the impact assessment already takes account of estimated compliance costs for local bodies (approximately £4 million a year), which are based on previously published reports by organisations including the Office for Public Management, Deloitte, the Local Government Association and the National Audit Office<sup>4</sup>. The Government remains of the opinion that these figures are the best available estimates and that the programme to end routine inspection and assessment, disband the Audit Commission and introduce a new local audit framework will save at least £650 million of taxpayers' money over a five year period (2012-2017).

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<sup>4</sup> Annex 2 of the Local Audit Bill impact assessment:  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/8350/2174738.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/8350/2174738.pdf)

## Secondary legislation

**We are not convinced that subjecting such regulations to negative procedure only is satisfactory; and neither has the Government provided any justification. In the interests of proper Parliamentary scrutiny, regulation should be subject to the affirmative procedure.**

**(Paragraph 9)**

8. The Government will review the delegated powers in the Bill and the procedures that they will be subject to before the final Bill is introduced. The final Bill will also be considered by the Delegated Powers and Regulatory Reform Committee in the House of Lords and the Government will take into account its conclusions. As a general principle, the Government has sought to apply the affirmative procedure to delegated powers in the Bill that enable textual amendments to primary legislation; and the negative procedure to delegated powers which enable the modification of the effect of the Act in certain circumstances.

## The new audit regime

**We are not convinced that the Financial Reporting Council understands the wider scope of public sector audit. The Government should take appropriate steps to assure Parliament that the Financial Reporting Council, in taking on its new role, reflects the importance and character of public sector audit. The Bill, when presented to Parliament, should also define “major audit” and clarify how the quality of audit for bodies which fall outside this scope will be reviewed. We recommend that the performance of the new regulatory framework should be addressed directly in the Government’s post-implementation review.**

**(Paragraph 17)**

9. The Government has been working closely with the Financial Reporting Council and other regulatory partners to ensure an understanding of their roles and responsibilities in the new framework for local public audit. The Financial Reporting Council has undertaken quality monitoring of public sector audits, under contract with the Audit Commission since 2008, and therefore has a firm foundation for taking on responsibilities when the residual Audit Commission closes in 2015. The Financial Reporting Council has confirmed that it will continue to work with the Government as legislation progresses through Parliament.



10. The Government proposes that “major local audits” will be defined as the audits of bodies whose annual turnover exceeds a financial threshold of £500 million. The Bill will also enable the Financial Reporting Council to decide whether audits of any other bodies should fall within the definition of “major local audits”, where it is in the public interest. This reflects similar provision made in the Companies Act 2006. The Government proposes that the definition of “major local audits” should be set out in regulations, rather than on the face of the Bill, to enable flexibility about how “major local audits” are defined, should the Government wish to review the financial threshold in the future.
11. Part 4 of the draft Bill sets out that the recognised supervisory bodies will monitor the quality of individual audits undertaken by all their member firms, except for those engagements that are designated as a “major local audit”. The draft Bill requires recognised supervisory bodies to inspect each of the audit firms registered to carry out local audit at least once every six years and that this inspection should review one or more completed audit engagements carried out by that firm.
12. The Government has committed to undertake a post-implementation review of the new audit framework once it is in operation and the impact in terms of costs and benefits to the public sector. The proposed methodology for the review will be included in the updated impact assessment that will be published alongside the final Bill.

**We recommend that the draft Bill should be amended in order to provide the Comptroller and Auditor General with a duty to publish detailed mandatory guidance to accompany the Code and that the Comptroller and Auditor General should report annually to Parliament on the effectiveness of the Code.**

**(Paragraph 18)**

13. The Government agrees that the Comptroller and Auditor General should be able to provide detailed guidance to support auditors undertaking duties set out in the code of audit practice. The Government intends to amend the Bill to require auditors to have regard to detailed guidance prepared by the Comptroller and Auditor General. Auditors will exercise their professional judgement when deciding how to approach an audit – this is in line with the approach currently adopted by the Audit Commission.
14. The Government does not propose to place an obligation on the Comptroller and Auditor General to report annually to Parliament. Part 5 of the draft Bill already includes provisions that ensure that the code of audit practice is effective. The Comptroller and Auditor General is required to keep the code under review; ensure that it embodies best professional practice with respect to the auditors’ work; and consult on

each new code. Part 4 of the draft Bill also sets out roles for the Financial Reporting Council and recognised supervisory bodies to monitor and report on the quality of audits, which will highlight occurrences of auditors not following the code or guidance.

**We agree with the Comptroller and Auditor General that the Department for Communities and Local Government and other departments must engage fully in the new audit process if it is to be effective. In its response to this Report, the Department should set out what steps it will take to achieve this.**

**(Paragraph 21)**

**We recommend that, as part of the new arrangements, a publicly accessible register be established by the Department for Communities and Local Government which identifies when a body has not appointed an auditor, when local bodies produce their accounts late and identifies where the auditor's opinion on the financial statements or value for money conclusions was qualified. In addition to the publication of this information, analysis should be undertaken to provide departmental Accounting Officers with meaningful conclusions. The Bill should impose a duty on the Secretary of State to identify which organisation will be responsible for maintaining the register, and for performing the appropriate analysis.**

**(Paragraph 25)**

15. The Government does not agree that it is necessary to publish a central register that lists the outcomes of local audits. Local bodies will be required to publish relevant information relating to their audit locally, including details of the auditor appointment and the auditor panel's advice on this matter; the auditor's opinion; any public interest reports and auditors' formal recommendations; and local citizens will have the right to inspect accounting material. It is for the audited body and local residents to act on any issues raised during the external audit process.
16. Departmental Accounting Officers have a responsibility to account to Parliament for the money voted to their departments, as set out in the Treasury's *Managing Public Money* guidance. Where money is distributed to third parties, Accounting Officers need to demonstrate the appropriate accountability arrangements are in place, usually by producing an Accountability System Statement. The Government is reviewing what arrangements are needed for analysis of external audit results to ensure that the necessary assurance can be provided to Accounting Officers in line with the latter's responsibilities under *Managing Public Money*, after the Audit Commission is closed.

**We recommend that the Cabinet Office takes on responsibility for the National Fraud Initiative. The Government must identify where the National Fraud Initiative will be located on the face of the Bill to Parliament.**

**(Paragraph 28)**

**The Secretary of State should provide the House with clarification on the wording of clause 84(2), 91(1) and 91(3) and should provide evidence to assure the House that the clause would not allow data to be used beyond the remit of identifying fraud. We recommend that all possible uses of the National Fraud Initiative should be set out on the face of the Bill and that any amendments should be made by primary legislation.**

**(Paragraph 29)**

17. The Government is in discussions with the Cabinet Office, the National Fraud Authority in the Home Office and the Department for Work and Pensions about taking on operational ownership of the National Fraud Initiative. The data matching powers in Part 6 of the draft Bill are, in common with usual legislative practice, conferred on the Secretary of State, which would enable them to be transferred to any Government department.
18. The Government's intentions regarding the data matching clauses in the draft Bill remain in line with what is currently set out in Section 32A of the Audit Commission Act 1998, which states that the data matching powers are exercisable for the purpose of "assisting in the prevention and detection of fraud". Clause 91(1) of the draft Local Audit Bill enables the Secretary of State to add purposes in regulations for which data matching exercises may be conducted. There is currently no stated limit to the purposes which may be added. The Government will amend this provision in the final Bill to limit the purposes which may be added in the same way that they are currently limited in section 32H of the Audit Commission Act 1998, thereby setting out all possible uses of the National Fraud Initiative on the face of the Bill.
19. As a further safeguard, before adding any purposes for which data matching exercises may be carried out; or before adding, amending or removing bodies that are required to provide data, the Secretary of State must consult relevant authorities, their representatives and the bodies affected. In addition, those regulations will be subject to the affirmative resolution procedure. Together with the amendments proposed above, the Government is satisfied that these safeguards are sufficient to ensure that any changes proposed are fully considered prior to implementation.
20. It is the Government's view that, due to the fast moving and developing nature of the fraud detection landscape, it would be unduly restrictive to require amendments to be made by primary legislation. This could seriously reduce the ability of the National Fraud Initiative to adapt to reflect such changes or potentially reduce the ability of the National

Fraud Initiative to apply to bodies that may be renamed or created in the future.

## **Independence: appointment and removal of auditors**

**Given the potential problems associated with local appointment, we recommend that a capacity is retained whose functions are limited to the procurement of audit.**

**(Paragraph 37)**

**Should the Government persist with its proposals for local auditor appointment, we recommend that the draft Bill is amended so that the provisions for auditor panels are replaced with a statutory requirement for strengthened audit committees which have an independent chair and a majority of independent members. We also recommend that, in order to safeguard the independence of audit, the Bill stipulates that full councils, or the equivalent governing body, should appoint auditors following recommendations from their Audit Committee.**

**(Paragraph 41)**

**We welcome the National Association of Local Councils/Society of Local Council Clerks' proposal for bulk procurement of audit and are pleased to see that Government has registered its support for their initiative. Should the Government remain committed to local appointment of auditors, we recommend that local bodies are encouraged to jointly procure auditors where it is possible to do so, and establish framework agreements where appropriate, in order to achieve economies of scale and value for money in audit procurement. The Bill should provide for maximum flexibility in order to enable local bodies to undertake a variety of joint procurement arrangements.**

**(Paragraph 43)**

**While we recognise that there would be scope for achieving economies of scale through joint procurement in the new regime, we also consider that substantial economies could be realised through central purchasing and appointment. This reinforces our view that a central procurement capacity should be retained. However, should the Government maintain its commitment to local appointment, we recommend that local bodies be encouraged and supported in jointly procuring audit in an effort to secure more competitive fees than could be achieved if each individual body appointed its own auditor. We consider the Local**

**Government Association to be well placed to potentially play an active role in facilitating this process.**

**(Paragraph 90)**

21. It is not necessary to retain a centralised quango to procure auditors on behalf of local bodies, and the Government believes that is not the only way to achieve the benefits of bulk purchasing. Part 3 of the draft Bill already allows bodies to come together to jointly procure their auditor. As the Committee's report notes, this should enable groups of bodies to achieve significant economies of scale in procuring their auditor. This could be a similar model, for example, to the way that the Audit Commission currently achieves economies by letting regional 'lots' of work. It would also enable smaller authorities to join up with larger authorities and benefit from their buying power. The chief executives of Oxfordshire County Council and Birmingham City Council both indicated in their evidence to the Committee their willingness to consider such arrangements with smaller neighbouring authorities. The Government welcomes and encourages joint procurement, but does not intend to impose shared arrangements on local bodies.
22. In terms of local auditor appointment, the provisions for auditor panels in the draft Bill provide a more flexible and less bureaucratic approach than the Committee's proposed requirement for statutory audit committees. A significant number of bodies have audit committees that are not majority independent but perform their current functions effectively. Others do not have audit committees at all but use other structures (such as joint scrutiny / audit committees) to oversee corporate and financial governance. The flexible model in Part 3 of the Bill gives such bodies the option of avoiding substantial changes to existing structures by establishing a small panel. Under Part 3 of the Bill, where bodies already have an audit committee that meets the independence requirements they will be able to use that committee to make recommendations on appointment. Where they do not, they have the option of setting up a small auditor panel, either as a small sub-group of their audit committee or as a separate panel. Or they can share a panel with other bodies, with no limit in the legislation on the number of bodies a panel can advise. The Government therefore does not believe that a requirement for statutory audit committees would significantly improve the appointment process or strengthen independence.
23. The Government agrees with the Committee's view that the appointment decision should be made by full council, to strengthen independence and transparency, given the added political context of local government. Clause 8 of the draft Bill requires appointment decisions made by local authorities to be made by full council.
24. The Government welcomes the Committee's recommendations on encouraging local bodies to jointly procure their auditors. As set out above, Part 3 of the draft Bill already allows local bodies to jointly

procure auditors and includes provision for shared auditor panels to support this approach.

**We recommend that the decision to remove an auditor should only be made by the audit committee in agreement with full council or the relevant governing body. This would provide a “double lock” and ensure that neither body could dismiss an auditor without the agreement of the other.**

**(Paragraph 50)**

25. Removal of an auditor during their contractual term is likely to be a rare occurrence and should not be a decision taken lightly. The final decision should be one for the audited body to take, rather than its auditor panel. However, the Government agrees that there needs to be a robust and transparent process for removal, as for auditor appointment. The Government intends that the decision to remove an auditor will rest with full council, having taken the advice of the auditor panel, and if a body chooses not to follow that advice we intend to require them to publish the reasons for that decision.

## Strengthening proposals for the Police

**We recommend that Police and Crime Commissioners should appoint or dismiss auditors after consulting its Police and Crime Panel instead of a separate auditor panel. In instances where two thirds of its members vote to do so, the Police and Crime Panel should be able to veto the Police and Crime Commissioner’s decision. The Police and Crime Commissioner should only be able to appoint or dismiss an auditor once agreement has been reached with the Police and Crime Panel. Moreover, we are convinced that Her Majesty’s Inspectorate of Constabulary no longer requires a veto power in respect to audit and inspection of the police given that the Audit Commission’s role is coming to an end.**

**(Paragraph 45)**

26. The Government agrees that the Police and Crime Commissioner should only be able to appoint or dismiss an auditor after consulting its Police and Crime Panel; however, the Police and Crime Panel should not be given any power of veto.
27. As set out in the Financial Management Code of Practice for the Police (and in guidance and best practice on audit committees issued by the Chartered Institute for Public Finance and Accountancy and HM Treasury) local policing bodies are required to establish an

independent audit committee. These audit committees will provide advice to the Police and Crime Commissioner on the appointment and removal of the auditor. Giving the Police and Crime Panel additional powers to veto the appointment or removal of the auditor would add an unnecessary additional layer of bureaucracy. Under the transparency arrangements the Police and Crime Panel can scrutinise and challenge the decision to appoint or remove the auditor. Members of the Police and Crime Panel may also be members of the audit committee.

28. The Government agrees that Her Majesty's Inspectorate of Constabulary no longer requires a veto power in respect to audit and inspection of the police, given the proposed abolition of the Audit Commission. Arrangements are being put in place to ensure that duplication is prevented and that there is no unnecessary burden placed on forces.

## Managing outstanding audit contracts

**Given the potential problems associated with many hundreds of separate procurement processes, we recommend that the Government reconsider the current proposals in the draft bill for the local appointment of auditors and retains a capacity limited to the procurement of audit. The Government should identify which body will become responsible for managing outstanding contracts on the face of the Bill. If a capacity is retained for procuring audit, this capacity should also be responsible for administering outstanding audit contracts. We recommend that the National Audit Office is well placed to take on this responsibility.**

**(Paragraph 47)**

29. As outlined in paragraph 21, the Government has no intention of mandating a central procurement capacity to appoint auditors on behalf of local bodies, as local bodies are perfectly capable of procuring auditors themselves. However, the Government is keen to encourage joint procurement, which the draft Bill already allows.
30. The Government has discussed the Committee's recommendation with the National Audit Office, which has advised that this responsibility would be unlikely to sit comfortably with its role as the independent auditor of central government and a more natural home would be with an executive body. The Government is still exploring with partners the options for where the existing audit contracts will transfer after the Audit Commission closes and will set out details of the arrangements to transfer management of the audit contracts to another body in the transfer scheme outlined in Schedule 1 of the draft Bill.

## Public Interest Reporting and whistleblowers

**We consider auditor independence to be vital. We recommend that the Bill should include provision for an auditor to raise a Public Interest Report without prior reference to the audited body's auditor panel or audit committee. The draft Bill should be amended to enable the National Audit Office to provide advice and support to auditors, if necessary, before a Public Interest Report is issued and throughout the Public Interest Report process. The Bill, when presented to Parliament, should place a duty upon auditors to inform the Secretary of State of circumstances where they have a concern about serious governance and financial failure.**

**(Paragraph 60)**

31. The Government agrees that auditor independence is vital, which is why the draft Bill contains various safeguards to protect this, such as independent auditor appointment panels and the duty on auditors to report in the public interest. The Government plans to strengthen further these safeguards by amending the Bill to require auditors to inform - not consult - the auditor panel before issuing a public interest report.
32. Auditors will use their professional judgement in deciding whether it is necessary to issue a public interest report. The process for issuing a public interest report is covered in the code of audit practice and responsibility for maintaining the code of audit practice will be transferred to the National Audit Office. As set out in paragraph 13 above, the Government intends to amend the Bill to require auditors to have regard to detailed guidance prepared by the Comptroller and Auditor General that will support the code of audit practice.
33. Part 5 of the draft Bill also requires auditors to send copies of public interest reports to the Secretary of State. As mentioned above in paragraph 16 the Government is reviewing what arrangements are needed after the Audit Commission is closed to ensure that the necessary assurance is provided to Accounting Officers. In addition, the Department for Communities and Local Government meets regularly with the Local Government Association to share information about governance, service delivery and financial information as part of the Local Government Association's sector-led improvement work.

**We consider that the lack of a clear mechanism to ensure that an auditor is appropriately recompensed for costs associated with a Public Interest Report to be a potentially dangerous omission. We**



**call on the Department for Communities and Local Government to make clear future arrangements for indemnifying bodies [sic] and suggest that it would be appropriate for the Department for Communities and Local Government to seek advice from the Comptroller and Auditor General prior to issuing any indemnities.**  
(Paragraph 61)

34. There are existing provisions in Part 5 of the draft Bill for auditors to recover reasonable costs for time spent investigating and issuing a public interest report. The Government intends to refine the final Bill to make it clear that auditors are entitled to recover reasonable costs for their time in exercising any of their statutory functions. However, the Government is not convinced of the need to replicate the Audit Commission's indemnity scheme which covers the costs of auditors taking or defending legal action. The Government believes that it is appropriate for private companies to bear the risks and costs (subject to the usual rules on legal costs) for any consequences resulting from the exercise of their functions. Furthermore the Government believes that this will not unduly deter auditors from exercising their statutory functions as the Audit Commission has only had to indemnify its supplier on very few occasions.

**We strongly recommend that in addition to the appointed auditor, the Comptroller and Auditor General should also be named as a prescribed person in the Bill. The Comptroller and Auditor General should continue to offer a hot line for whistleblowers and be given power to instruct auditors to investigate whistleblower's information.**

(Paragraph 63)

35. Under the Public Interest Disclosure (Prescribed Persons) Order 1999, the Audit Commission and auditors appointed by the Audit Commission are "prescribed persons" for disclosures relating to "the proper conduct of public business, value for money, fraud and corruption in local government and health service bodies". As they are identified as prescribed persons, anyone making a qualifying disclosure to the auditor will be protected under the Employment Rights Act 1996 from detrimental treatment by their employer. The status of the Commission and the auditor as prescribed persons ensures that they can receive protected disclosures from employees, but does not empower or require them to investigate disclosures or to report the results of any investigation. In practice, the Audit Commission forwards disclosures it receives from whistleblowers to the relevant auditor, who considers the disclosure in the context of their existing statutory powers and duties when carrying out the external audit of the body.
36. It is the Government's intention that the appointed auditor will continue to be a prescribed person under the relevant legislation, and auditors will continue to be required to consider any relevant disclosures as part

of their statutory duties – for example, considering whether to make a public interest report on the matter. The Government also intends to make the Comptroller and Auditor General a prescribed person, so that the National Audit Office is able to offer a similar 'hotline' for whistleblowers as the Audit Commission currently does. The Government does not believe that there will be any new barriers to individuals making disclosures directly to their auditor, or a need to give the auditor or the National Audit Office additional powers or duties in relation to investigating disclosures.

37. It is not necessary to prescribe persons in the draft Bill itself, as the Government intends to make the required changes through an amendment to the Public Interest Disclosure (Prescribed Persons) Order 1999.

## Value for Money studies

**We are very concerned that the draft Bill makes no provision for comprehensive like-for-like value for money comparisons which would enable informed judgements about whether taxpayer money had been spent effectively. The Bill should be redrafted to include a systematic process to enable benchmarking and like-for-like comparisons between public bodies in the new regime.**  
(Paragraph 70)

**We recommend that the Bill include a provision to confer on the Comptroller and Auditor General an additional power to instruct auditors to collect consistent information on his behalf. The Secretary of State should provide detail on how auditors will be reimbursed for this additional work.**  
(Paragraph 78)

38. The Government is committed to minimising the data reporting burden placed on local authorities. The Government's approach has been to use the Single Data List (a catalogue of all central governments' data requirements from local government) to challenge all existing and proposed new data requirements. This work is being led by a Gateway Group co-chaired by the Department for Communities and Local Government and a representative from local government. The Government believes that giving the Comptroller and Auditor General additional powers to instruct auditors to supply benchmarking data would undermine the Single Data List and the need to reduce data reporting burdens - as it would operate outside that list and coordination. Furthermore, the Government believes that it is primarily for the local government sector – not central government – to lead on the provision of comparable local performance data. Despite the significant rationalisation of data requirements, there is still a wide

range of consistent performance data being collected by local authorities and submitted to central government that is available for benchmarking purposes through LG Inform. This comparable data web-tool will be made available to the public in summer 2013.

39. The Government ended the bureaucratic Local Performance Framework in 2010. Re-establishing a national indicator set or another form of systematic centralised performance management structure would run counter to localism. It would also be unnecessary given the local government sector's willingness to lead in this area through the development of LG Inform.

**We note the Comptroller and Auditor General's confidence that the National Audit Office will be capable of undertaking the additional Value for Money work imposed by the draft Bill. The Comptroller and Auditor General should monitor closely whether he has sufficient resources to meet this requirement and, if necessary, request additional resources from the Public Accounts Commission to discharge his new responsibilities.**

**(Paragraph 72)**

40. This is a matter for the Comptroller and Auditor General and the Public Accounts Commission. The Government has discussed this with the National Audit Office which has confirmed that the Comptroller and Auditor General has planned for additional work arising from the draft Bill in his existing Strategy and request for resources to 2015-16. As he does now, the Comptroller and Auditor General will monitor closely whether he has sufficient resources to meet his responsibilities and, if necessary, request additional resources from the Public Accounts Commission.

**We recommend that the Comptroller and Auditor General consult widely in order to identify the core issues which need to be addressed by its six Value for Money Studies. We expect the Comptroller and Auditor General to work closely with the Committee of Public Accounts in developing its expanded Value for Money programme.**

**(Paragraph 76)**

41. The Government has discussed this recommendation with the National Audit Office, which has confirmed its continuing commitment to working collaboratively when determining its programme of value for money work. The National Audit Office already works closely with the Committee of Public Accounts and will continue to do so.
42. The National Audit Office has confirmed that its value for money programme will expand to include around six additional studies per

year with a focus on the local sectors covered by the Bill. In developing these additional studies, the draft Bill requires the Comptroller and Auditor General to have regard to any other examinations being undertaken by other persons. Furthermore, in response to requests from the local government sector, the Government will amend the Bill to require the Comptroller and Auditor General to consult relevant parties when developing the value for money studies programme. The Government understands that the National Audit Office and the Local Government Association are working to agree a Memorandum of Understanding setting out how the National Audit Office will work with the sector on these studies.

**We are concerned that as a result of the draft Bill there is a vacuum surrounding Value for Money work for individual local bodies which sector-led organisations, including the Local Government Association, are expected to fill. This places a substantial amount of responsibility on the Local Government Association which is essentially a membership organisation and is primarily accountable to its members, rather than directly to the taxpayer.**

(Paragraph 81)

**We consider that the effectiveness of the Local Government Association's peer-led improvement work is undermined by that organisation being a membership body, and the absence of a formal mechanism to identify poorly performing local authorities who may, or may not, choose to participate.**

(Paragraph 82)

**We recommend that the National Audit Office should undertake a review of the effectiveness of the Local Government Association's sector-led approach one year from the commencement of the scheme.**

(Paragraph 83)

43. The Government's *Accountability System Statement for Local Government* sets out a range of checks and balances, in addition to sector-led improvement, which provide the necessary assurances that local authorities are spending their resources with regularity, propriety and value for money. These include accountability to local people; clear regulations for how councils use their money; and inspection of key services like children's services. Central government also continues to collect a wide variety of consistent data on local performance, which is available to the public. This is published nationally and populates LG Inform, the Local Government Association's comparable performance data webtool.
44. Elected councillors will remain in charge of achieving value for money in their council, as they always have been and the auditor will be

required to report on the local authority's arrangements for achieving value for money. Part 7 of the draft Bill also enables the Comptroller and Auditor General to undertake value for money studies that take in local delivery, enabling a more end-to-end view on the use of public money.

45. The Local Government Association has commissioned an external evaluation of sector-led improvement, which has already produced some reports. For example, Cardiff Business School has completed an interim evaluation of the Local Government Association's peer challenges. It found that the peer challenge teams had the right mix of skills and experience and that councils welcomed a challenge that was tailored to their needs. The Government therefore does not see the need for a further review of sector-led improvement.

## Audit fees and the market in audit

**Given the uncertainties surrounding the level of future audit fees, we recommend Government conduct a post-implementation review following both the first and second self-appointment exercises.**

**(Paragraph 91)**

46. The Government has committed to undertake a post-implementation review of the new audit framework once it is in operation and the impact in terms of costs and benefits to the public sector. The proposed methodology for the review will be included in the updated impact assessment that will be published alongside the final Bill.

**We are concerned that the provisions in the draft Bill will not produce an open and competitive audit market as envisaged by the Government which is an aim that we support. The Bill should not result in contracts being awarded to a small number of audit firms. We recommend that the Government consult further appropriate bodies including the Competition Commission, Financial Reporting Council, Local Government Association and professional accountancy bodies in order to amend the Bill so that effective competition can be realised.**

**(Paragraph 96)**

47. Currently, contract size represents a barrier to entry to the local audit market, and under the new regime with lower value and more numerous contracts on offer, there will be greater opportunities for smaller audit firms to enter the market. We are working with regulatory partners to ensure that any rules on eligibility of firms to be appointed

as a local public auditor do not result in any unnecessary barriers to providing an open and competitive audit market. The Government is also aware that the Competition Commission has reported its provisional findings of its inquiry into competition in the statutory audit services market and the Government is considering the relevance of these findings carefully.





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ISBN 978-0-10-185662-1

