



Government response to the Communities and  
Local Government Select Committee Report  
Audit and Inspection of Local Authorities

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

1. The Government welcomes the Committee's report of its inquiry into the audit and inspection of local authorities. The Committee's findings are an important contribution to the shaping of the audit and inspection landscape that will be put in place after the disbandment of the Audit Commission and we will continue to take them into account as the policy is developed.
2. The Government recognises that there are three distinct, but not wholly independent, aspects to the Committee's considerations. The first of these relates to the new local public audit framework that will need to be put in place to maintain auditor independence and regulate local public audit services. The Government has been clear that it has designed its proposals for a new local public audit framework with the principles of localism, transparency, high standards of auditing (i.e. having regard to the principles of public audit), and competitive audit fees (which do not reflect the Commission's overheads) in mind. These will continue to be the principles which inform the final shape of the framework as the Government reflects further on the Committee's recommendations and the responses received to the Future of Local Audit consultation<sup>1</sup>.
3. The second aspect of the Committee's considerations relates to competition in the audit market in the short-term and what happens to the Commission's in-house audit practice. Subsequent to the publication of the Committee's Report, the Government announced it was asking the Commission to outsource all of its audit work from 2012-13<sup>2</sup>. The Commission agreed this request and has now launched the procurement competition to contract out these audit services. The Government believes that outsourcing the work of the in-house practice will maximise value for money for the public purse and has worked with the Commission in the design of a procurement process which will allow a range of firms to bid for the work.
4. The final aspect of the Committee's considerations relates to inspection. The Government is clear that centralised inspection and supervision of councils is both an unnecessary burden on frontline services and is detrimental to the genuine local accountability that is essential if local services are to be efficient and meet the needs and aspirations of local communities. It will continue to look for ways to

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<sup>1</sup> See <http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult>

<sup>2</sup> See <http://www.communities.gov.uk/news/localgovernment/1954748>

remove or reduce such burdens whilst ensuring that accountability and transparency about the way public money is spent and services delivered at the local level remain paramount.

## Conclusions and recommendations

5. The Government's intention is to publish a formal response to its consultation on the Future of Local Audit later in the autumn. That response will set out in detail the new local public audit framework on which we intend to legislate as soon as Parliamentary time allows. The Government would welcome the opportunity to discuss the content of the new framework in further detail with the Committee once the response to the consultation has been published. In the meantime, set out below are the Government's responses to the Committee's conclusions and recommendations, under the headings adopted by the Report. These are listed in the order in which they appear in the Report, with the Government's response set out below each of them.

### **Abolition and fragmentation**

**We accept that sometimes policy-led decisions have to be made quickly and without lengthy prior evaluation and consultation. The decision appears to have been taken without a clear evidence base. There is potentially an opportunity for a valuable reassessment of the arrangements for public audit. The Government has also effectively ruled out consideration of the potentially useful option of retaining a residual function for the Audit Commission, which may have presented an opportunity to prevent the fragmentation of functions.**

**(Paragraph 17)**

**We are now some way down the road of the abolition of the Commission, and, as we report below, further delay in finalising arrangements could jeopardise the chances of a smooth transfer of its audit practice into the private sector. In the short term, therefore, the Government should concentrate on successful implementation of the changes it proposes. Nevertheless we are critical of the manner in which this major policy change has been handled, and the missed opportunities which have resulted. Once new arrangements are in place, we recommend that the Government instigate a wide-ranging review of public sector audit and how it fits into the wider context of accountability for the expenditure of public money. Such a review should be carried out**

**in close consultation with Parliament, in particular through the relevant select committees.**

**(Paragraph 18)**

6. The Government remains of the view that the Audit Commission had become less focused on accountability to citizens and more on reporting upwards to Government, judging services largely against top down Government imposed targets. The in-house audit practice is well respected and has consistently done a good job. However, the Government does not believe that there is a rationale for the audit practice - the fifth largest provider of audit services in the UK – remaining in the public sector.
7. The Government published a consultation document on 30 March 2011 setting out its proposals for new framework for local public audit. It is not convinced that a subsequent wholesale review of public sector audit is necessary or desirable. The work being led by Sir Bob Kerslake on accountability and the development and publishing of accountability system statements will help departmental Accounting Officers demonstrate to Parliament how public money is being properly managed. Within those system statements Accounting Officers would also need to set out the assurances they have in place around public funds for which they are responsible and which have been devolved to local public bodies; local public audit, alongside increased local transparency, will be an intrinsic part of those assurances.

## **Savings from abolition of the Audit Commission**

**DCLG should demonstrate its commitment to transparency by reporting and monitoring annually for the next five years on the full savings and costs in respect of: the abolition of the Audit Commission and the tasks transferred to other bodies, and how these compare with costs under the existing system.**

**(Paragraph 24)**

8. The Government has said it expects to realise significant savings from disbanding the Audit Commission. It intends to publish a draft Impact Assessment before bringing forward legislation which will estimate the costs and savings from disbanding the Audit Commission, outsourcing its in-house practice, and transferring its functions as regulator and commissioner of local public audit services. The Committee will also wish to note that:
  - £10m p.a. in grant to the Commission has already been saved by abolishing the Comprehensive Area Assessment; this is in

addition to the overall cost to local government in complying with Comprehensive Area Assessment (estimated to be £6m-£19.5m in 2010 and £9.7m-£31.6m per annum thereafter<sup>3</sup>)

- the Commission has already reduced its national studies programme which the Committee did not think all provided value for money
  - once the work of the in-house audit practice has been outsourced the Commission will be much reduced in size and the overheads associated with a small residual body will be much lower; and
  - these smaller overheads are already starting to feed through into the audit fees charged to local public bodies with the Commission proposing a 10% reduction in fee scales for 2012-13<sup>4</sup> for first year of audits done under outsourcing (the Commission will continue to publish annual scales of fees for the duration of the outsource contracts).
9. The Government does not believe monitoring and reporting on fees (and other costs/savings in the new system) on an annual basis to be practical as it would not provide sufficient time for the new local public audit framework to bed down and for the associated audit services market to settle.

## Local appointment

**The Government is proposing a departure from the established practice that public bodies should not appoint their own auditors. The proposals place a great responsibility on the Government to create adequate legal safeguards and assist local government in establishing local audit committees that are, and are seen to be, capable and independent. Advice, training and resources will be required. The National Audit Office, on whose evidence we have placed considerable weight, must also ensure that the system succeeds.**

**(Paragraph 37)**

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<sup>3</sup> These costs are based on an estimated saving of 50% in 2010 of annualised costs as reported in an Office for Public Management evaluation report commissioned by the Audit Commission on behalf of the Joint Inspectorates. In subsequent years the saving will be around the 80% mark. See working at Annex B, put together in early June. See <http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/20100316establishingthecostsofcaa.pdf>.

<sup>4</sup> See <http://www.audit-commission.gov.uk/audit-regime/audit-fees/201213/Pages/default.aspx>

**The legislation will have to provide clear and uncontestable protections for assuring the independence of audit committees and auditors. We recommend that final responsibility for appointment of the auditor should lie with the full council, following a recommendation of the audit committee. Dismissal of the auditor should also be a decision for full council, following the recommendation of the audit committee. The regulations should provide a 'double lock' so that neither body is allowed to dismiss the auditor without the agreement of the other. Full transparency and public reporting of the workings of the audit committee will be essential.**

**(Paragraph 38)**

**Audit committees must be chaired by independent persons of proven competence, and should have a majority of independent members. These requirements (including the avoidance of conflicts of interests for independent members) should be defined in law. Chairing of audit committees will be a significant responsibility and should be remunerated, and allowances should be payable to other independent members. The law should require full transparency for audit committee proceedings.**

**(Paragraph 39)**

10. The Government has confirmed on several occasions its commitment to maintaining auditor independence in the new local public audit framework. We are still considering the responses received to the Future of Local Audit consultation and will set out our proposals in more detail later in the autumn in the formal Government response to that consultation. However, our initial view (as proposed in the Future of Local Audit consultation) is that requiring the appointment of an auditor to be undertaken by the full council on the advice of an independent audit committee seems the most practical and effective way of ensuring auditor independence. Transparency in the appointment process will also be an important part of ensuring auditor independence.
11. However, the Government has also listened to the view that has been expressed by some in the local government sector that it might be difficult to find suitable independent members for appointment panels. As we finalise these proposals we are therefore also looking at ways in which we can help to make our proposals work practically including allowing local public bodies to share appointment panels (and therefore independent members); this would also facilitate joint procurement exercises. In due course we also intend to talk to both the Local Government Group and other bodies such as The Chartered Institute of Public Finance and Accountancy (CIPFA) as to practical ways in

which we can make such a system work (for example, creating a register of suitable independent members).

12. The *Future of Local Audit* consultation set out proposals for the protections that could apply around the resignation and removal of auditors. We are considering responses and the Government response to the *Future of Local Audit* consultation will set out in detail the arrangements and protections that we are proposing to put in place around dismissal of auditors.

## **Public interest reporting and objections to accounts**

**The Government has proposed that arrangements for public interest reporting continue without additional safeguards. However, the abolition of the Audit Commission as overseer and guarantor of public interest reporting represents a fundamental change to this aspect of local auditor appointment. Therefore changes are required to the Government's proposals to safeguard public interest reporting, as indicated by several witnesses. These should include an explicit requirement in the duties specified for the audit committee in the primary legislation to support the auditor in any reasonable recommendation for a public interest report; and the professional oversight body (or bodies) responsible for accrediting auditors for local government audit work, should be specifically required to consider the competency of firms to undertake this role and to monitor the standard of public interest reporting undertaken. In addition, the oversight body should be given powers to appoint a separate organisation to undertake the investigation and report, where necessary.**

**(Paragraph 44)**

13. The Government has been clear that it thinks the duty for an auditor to undertake Public Interest Reports is a vital part of the local public audit system. We are still finalising the detail of our proposals in this area but our initial view is that it will be important for the audit committee to have a role in mediating between the audited body and the auditor in relation to Public Interest Reports. We consider that the ethical standards that all registered auditors must follow and the role of the professional accountancy bodies in enforcing and monitoring compliance with these standards will be an important part of ensuring that Public Interest Reports remain an essential element of public sector audit.

14. We also believe it is important, when moving to local appointment, that an auditor continues to feel able to undertake his role, including his duty to report in the Public Interest, without any hesitation or uneasiness. We have heard concerns that the new direct contractual relationship between the auditor and the local public body could lead the auditor to feel uneasy about making a report in the public interest. Our consultation document set out a number of safeguards around the unreasonable dismissal of an auditor by a local public body which were designed to provide security for the auditor. We are currently considering responses to these proposals. The Government response to the *Future of Local Audit* consultation will also set out in detail the arrangements and protections that we are proposing to put in place around dismissal of auditors.

### **Right of objection**

**The statutory right of the public to object to accounts should be replaced by more proportionate arrangements. We recommend that, for larger bodies, objections be investigated by the s151 officer, who would inform the local audit committee and auditor of the objection and the investigation. The auditor would be free to decide whether it merited further attention and, if so, by whom. The public's rights to inspect accounts and to ask questions of the council would remain.**

**(Paragraph 46)**

15. The Government welcomes the Committee's conclusion that the statutory right of the public to object to accounts should be replaced by more proportionate arrangements. The consultation on the Future of Local Audit set out proposals which would give the auditor more discretion about responding to objections whilst still – consistent with our desire to increase transparency – upholding the right of the public to inspect accounts. We are continuing to refine the detail of our proposals in this area and will publish them in detail in the forthcoming response to the *Future of Local Audit* consultation later in the autumn.

## **Responsibility for the audit code, standards and consistency**

**We agree that the National Audit Office (NAO) is best-placed of the remaining bodies concerned with public audit to prepare the code of audit practice. It should do so in conjunction with the Local Government Group (LGG), professional accountancy bodies and other appropriate stakeholders, who should be made statutory consultees. Ensuring consistency in audit is a related task, and key matter, responsibility for which has not been specified. The Government must clarify how consistency in audit is to be achieved before the new system is introduced.**

**(Paragraph 49)**

16. Section 4 of the *Audit Commission Act 1998* places a duty on the Audit Commission to prepare and keep under review a Code of Audit Practice prescribing the way in which auditors carry out their functions under the Act. It sets out how the Code should be prepared and approved including who should be consulted. The Code is a means of ensuring consistency of audit, as it sets out how all auditors should approach audit of local public bodies. The Government consulted on proposals to pass responsibility for the Code to the National Audit Office and, should this transfer happen, envisages that similar consultation requirements will be placed on the National Audit Office, including the requirement to consult the Local Government Group, relevant accountancy and auditing bodies and other appropriate stakeholders.
17. In the companies sector the quality of audits is monitored by the Audit and Inspection Unit of the Financial Reporting Council (in relation to the audits of public interest entities) and by the professional accountancy bodies (for all other audits). The Government envisages the same bodies could be responsible for ensuring the consistency and quality of local public audits.

**In preparing the code of audit practice, the NAO will—subject to the approval of the Public Accounts Commission—incur additional costs, and may have to build capacity to fulfil these functions. We invite the Public Accounts Commission to monitor costs and seek to ensure that they do not exceed those previously incurred by the Audit Commission.**

**(Paragraph 50)**

18. This will be a matter for the Public Accounts Commission. The Government has written to the Public Accounts Commission to draw its attention to the Committee's recommendation.

## **Scope of audit: key elements**

**Public sector audit needs to be proportionate and risk based. Its primary purpose is to protect public money but it should also be adaptable for legitimate local needs and provide value in its own right. The code of audit practice needs to reflect these principles. In the early days of local audit committees, a more prescriptive code may be appropriate, but the code should not be enforced in such a way as to stifle local innovation and the benefits of local decision-making.**

**(Paragraph 56)**

**The nature and extent of value for money work prescribed in the code of audit practice is contentious. On balance, we favour the proposal that a council prepare an annual report of its arrangements for delivering value for money, showing what it is trying to achieve and the measures that it is using to improve performance. The auditor should be required to review and provide reasonable assurance on the annual report. This would be a more limited but realistic requirement than requiring auditors to judge whether the council is delivering value for money. Additional value for money work should be an optional, not mandatory, part of the code. Financial resilience must remain a part of the audit code although the scope of the work should be proportionate to risk and clearly related to financial matters. Grant certification work should be brought within the general audit instead of being a disproportionate additional cost. The results of the audit need to be communicated to councillors and public in ways that are more meaningful than currently.**

**(Paragraph 57)**

19. We welcome the Committee's view that public sector audit needs to protect public money, while also being adaptable for local needs and providing value in its own right. The *Future of Local Audit* consultation set out four options in relation to the scope of local public audit. Responses received on these proposals have been mixed but a slight majority of respondees indicated a preference for leaving the high level scope of audit unchanged i.e. including a requirement to look at the arrangements for value for money. The detail of how auditors should approach the value for money element of the audit is currently set out in the Code and in related detailed guidance for auditors. The Government is considering carefully how to ensure a proportionate and/or risk-based approach to local value for money audit work. The Government consulted on proposals to pass responsibility for the Code to the National Audit Office and, should this transfer happen, the content of the Code will ultimately be a matter, following full consultation, for the Comptroller and Auditor General.

## **Domination by the few**

**Unless the Government can crack the problem of the very limited competition in the audit market in the UK, it will be open to the accusation that the abolition of the Audit Commission is not a measure to save public money but merely a mechanism to transfer public money into private hands. For local auditor appointment to work, the local government audit market must be opened up to wider competition that provides local authorities with a genuine choice of audit firms. This will require active management and learning from developments in the private sector, such as the outcome of the Office of Fair Trading's current review. The Department for Communities and Local Government should work with other appropriate bodies, including Department for Business Innovation and Skills, Competition Commission, Financial Reporting Council, the Local Government Group and professional accountancy bodies to deliver a more open and competitive local government audit market.**

**(Paragraph 61)**

20. In the short-term, the number of firms supplying local public sector audit will be determined by the outcome of the process to outsource the work of the Commission's in-house audit practice.
21. While the outcome of the procurement process cannot of course be guaranteed in advance (as it depends on the behaviour of potential bidders and a process which is strictly determined by law), the Government asked the Commission to design a fair and competitive process which should allow a range of firms to bid for work and aims to maximise value for money for the public purse as a whole. The Commission published its Procurement Strategy and the contract notices on 5 September<sup>5</sup>.
22. The Government is working with its partners to refine the new approach to regulation of local public audit with a key aim being to ensure an open and competitive local public audit market where eligibility criteria etc, are proportionate and do not provide barriers to entry.

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<sup>5</sup> See <http://www.audit-commission.gov.uk/aboutus/future/pages/timetable-for-outsourcing-process.aspx>

23. The Office of Fair Trading is best placed to consider any structural issues about the wider audit market, which could impact on the supply of local public audit in future. The local public sector audit market is only a tenth of the overall market for audit services.

### **Audit Commission: audit practice**

**It is vital that the Audit Commission audit practice's skills and expertise are not lost and that it remain a significant player in local government audit market, in order to provide fee competition and choice. Our favoured outcome is the establishment of a stand-alone company, preferably a mutual. If this proves to be unviable, merger with another audit firm outside the Big Four would be our second preference. Failing both of these, the audit practice should be broken up so that capability is spread to a number of other smaller firms. It would be entirely unacceptable for the practice to be bought by one of the existing Big Four as this would further reduce the already-limited choice and competition. Department for Communities and Local Government must also carefully consider the transitional arrangements and ensure that the necessary assistance and stability is provided to assist the audit practice through this period, particularly if the practice is established as a mutual.**

**(Paragraph 66)**

24. Since the *Transfer of Undertakings (Protection of Employment) Regulations 2006* will apply to the outsourcing process, the vast majority of employees of the Commission's audit practice will transfer to the successful bidders, ensuring that the skills and expertise of Commission employees are not lost to the marketplace. Furthermore, as potential providers will not need to demonstrate as part of the procurement process that they already have in place all the necessary capacity and capability to perform the audit work for which they are bidding, this is likely to facilitate bids by smaller and medium-sized firms.

25. The Government asked the Commission to design a procurement process that allows a range of firms to bid for the work currently undertaken by the in-house audit practice, in order to avoid reinforcing the concentration in the wider audit market during this transitional period of outsourcing and constrain fees. The procurement process announced by the Commission on 5 September will divide the work between a number of providers, the maximum being ten and the minimum being three, depending on the bids received. Further details are set out in the Commission's Procurement Strategy.
26. The Government has always made clear that it would be happy for employees of the in-house audit practice to form a company and bid for the audit work that is to be outsourced, and we welcome the announcement that employees are planning to participate in the procurement process in conjunction with a strategic partner. However, it is important to recognise that the Commission can only award the outsource contracts on the basis of a fair, open and transparent competition that is fully compliant with competition and procurement legislation. Ensuring that any employee-led company and other bidding firms are at no advantage or disadvantage in the procurement competition is therefore a key consideration in the drafting of the procurement documentation, and we will continue to work with the Commission as the competition proceeds to ensure this.
27. While clear about ensuring the employee-led bid has a fair opportunity to compete in the outsourcing process, the Government and the Commission have, of course, to comply with EU State Aid rules. The Commission has, however, done what it can to facilitate the potential employee-led bid as far as is appropriate within the legal constraints. At the same time, it is important that the procurement competition is objective, fair and transparent and for this reason the Commission has also put robust propriety arrangements in place, to ensure a level playing field for all potential bidders. These include its Staff Protocol which is available from the Commission's website<sup>6</sup>.
28. The Government has been working and will continue to work closely with the Commission to ensure a smooth transition to fully outsourced local public audits.

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<sup>6</sup> See [www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/staff-protocol-outsourcing-060911.pdf](http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/staff-protocol-outsourcing-060911.pdf)

## **Audit fees**

**Developing a fully competitive market will be an important element in achieving lower overall audit fees—a key design principle of the Government's proposals. All local authorities should be required to publish annually their audit fees, showing separately the cost of the mandatory (code) audit and any additional audit or consultancy work. The figures should be published in a consistent way that allows comparison and analysis.**

**(Paragraph 69)**

29. Councils are already required to publish spend, tenders and contracts for goods and services over a value of £500. Invoices from providers of audit and consultancy services would similarly need to be published. The *Code of Recommended Practice for Local Authorities on Data Transparency* has now been published. This is a short, high level document – guidance – setting out a principle-based approach to releasing local authority data for re-use.

## **A driver of improvement?**

**The "command and control" system has an appealing logic: ministers set objectives and targets, local government devises the delivery methods, and an inspection service reports and drives improvement. Yet this has proved to be highly controversial and its benefits uncertain. There has not been a proper examination of issues relating to performance management, inspection and how to drive improvement in local government. A rigorous, dispassionate review of public sector performance management regimes, including targets, indicators, inspection methods and their alternatives, is long overdue.**

**(Paragraph 78)**

30. In ending the Comprehensive Area Assessment, the Government made clear that local authorities will primarily be responsible for their own improvement and delivering more for less. Local government performance has improved over a number of years, and local authorities are well placed to deliver services that local people want, independent of central control.
31. Local Authorities are democratically elected bodies which should be accountable to the communities which they represent. The previous performance framework encouraged them to respond to central imperatives rather than the needs of local residents, and placed an

unnecessary reporting burden on authorities. For example, Leicestershire councils found they had 90 full time staff collecting and processing more than 3,000 individual data items for central government at a cost of £3.7m a year. They also faced 83 different inspections every year.

## **Sector-led performance management**

**We welcome the LGA's proposals for sector-led performance management. However, they suffer from the limitation that they are optional and there is no formal mechanism to identify poorly performing local authorities, who may choose not to participate. It remains to be seen how vigorously and effectively they are implemented. The Government should clarify its position on sector-led arrangements and whether it intends to provide any further policy or legislative framework.**

**(Paragraph 84)**

32. The Government is committed to shifting power from central government to councils to enable them to deliver services that meet the needs of local people. We want councils to embrace the spirit of openness, transparency and accountability so that local people can understand what they are doing and to hold them to account. The sector as a whole must be robust in challenging poor performance. The Local Government Group has an important role to play in identifying where the challenges lie and how to overcome them. We believe the sector is committed to fulfilling this role, as demonstrated by the Local Government Group's "Taking the Lead" publication earlier this year<sup>7</sup>.
33. Aside from sector led improvement, there is still an external policy and legislative framework in place for councils. There are core checks and balances on good financial management, which for example require councils to balance their budgets. There are duties to provide a range of services. And there remains inspection of high risk services such as children's services. So sector led improvement is only one of a range of mechanisms regulating council performance.
34. As part of a review of accountability led by Sir Bob Kerslake, it has been recommended that Accounting Officers for government departments publish accountability system statements, to demonstrate to parliament how public money is being properly managed. If the recommendations are agreed, the Accountability system statements for the Department for Communities and Local Government and other departments who face local government will set out this framework.

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<sup>7</sup> See <http://www.lga.gov.uk/lga/core/page.do?pageId=12858175>

## **Performance indicators and public reporting**

**It now seems inevitable that there will be a lack of comprehensive, consistent data on which authorities can be compared. There are calls to reinstate some limited form of national indicators to allow comparison between councils. This may seem attractive but it is unclear how it would avoid the problems and anomalies of the previous indicator sets. We consider that the emphasis, at least for now, should be on comprehensive local reporting against local objectives with maximum transparency. Nevertheless the need for a broader perspective will remain. We recommend that the need for and adequacy of comparative performance data be reviewed two years from now, once the new arrangements have bedded in.**

**(Paragraph 88)**

35. The Government agrees that the emphasis should be on comprehensive local reporting against local objectives with maximum transparency. Under a localist system, it is primarily for local authorities themselves to provide citizens with the information they need to hold them to account; a substantial proportion of which will be purely local in nature. It is also primarily the responsibility of local government as a whole to ensure that citizens can access appropriate comparable performance data, and we welcome the steps taken by the Local Government Group to assist local authorities in this task. The Government does not intend to reintroduce the National Indicator Set; it would not be appropriate in a localist system and we do not consider that the previous Local Performance Framework provided the transparent, comprehensive performance data that citizens require. Collation of the Single Data List has identified (for the first time) the weight of the data reporting burden placed on local government. Nevertheless, central government will continue to collect a wide variety of data from local authorities for its own purposes, much of which relates to frontline service provision and which citizens may find useful in holding their local authority to account. We are committed to publishing this data in an accessible format. Clearly Government retains the overall responsibility for ensuring that the system allows citizens to access the information they need, including local comparable performance data, and will be reviewing and evaluating the effectiveness of these arrangements as they bed in.

## Variation, failure and intervention

**It would be idle to pretend that intervention by central government in the conduct of local authorities is never going to be necessary. It should therefore be well-regulated and based on clear and transparently-applied criteria—preferably statutory. Some local authorities will inevitably perform better than others. In some cases, council services will fall below acceptable standards, or a council itself may fail. We reiterate the recommendation in our report on Localism that the Government make clear the grounds on which intervention in local services will be deemed necessary. We further recommend that, in cases of serious service or corporate failure, the Government set out not only the grounds on which intervention might take place, but also the mechanisms that would trigger intervention and how it would be undertaken. It should do so in close consultation with the local government sector, including the Local Government Association, but mindful of the fact that the LGA is a voluntary membership body which may not itself be capable of identifying or dealing with all cases of serious service failure.**

**(Paragraph 93)**

36. We have been clear that the Secretary of State will retain the power to intervene in the most serious cases of failure. Under Section 15 of the *Local Government Act 1999*, the Secretary of State may intervene where he is satisfied that an authority is failing in its duty of Best Value.
37. The Local Government Accountability System statement will set out an overview of the process that would be used in moving towards intervention. The Secretary of State would intend to use those powers only in cases of serious corporate failure in an authority. These cases are rare, and can vary in their circumstances, so prescriptive criteria for when intervention would be needed would not be appropriate. However, these are cases where relationships between councillors and officers have irretrievably broken down and there is failure across a number of services. To identify these cases, Government can draw on range of information flows, including from the remaining inspectorates of local government services, and from information sharing with sector led improvement processes. If necessary, Government has, and intends to retain, the power to commission a further investigation.
38. Working with the Local Government Group, we have initiated an Information Sharing Network to ensure that Government is informed on progress of sector led improvement, and that any concerns from Government are fed back to the sector. However, we have been clear

that decisions related to how and when Government may intervene are matters for the Secretary of State.

39. Secretaries of State in other Departments have separate powers to intervene and separate processes for triggering and managing inspection.

### **National Audit Office to take on the role**

**Over the years the Audit Commission has produced some of useful national value for money studies, but the programme has become excessive and not sufficiently linked to the needs of the sector. Not all the studies have proved helpful or, at £5 million a year, themselves provided value for money. We believe that a smaller, more selective programme would be better. It would be wrong for one part of public expenditure—local government—to be excluded from VfM assessment and the National Audit Office should ensure that local government services and expenditure are given due weight in its studies programme. Provided that the National Audit Office has, or acquires, the necessary expertise in local government matters, there may be some advantages to having a more unified approach to reporting on public expenditure across both local and central government. Additionally, we welcome reports by a diverse range of organisations, including those from outside government, and recommend that the National Audit Office, Local Government Association and Department for Communities and Local Government encourage collaborative working and seek to ensure information is made available to all serious researchers. The NAO and LGA should lead on devising a coherent programme that adequately covers priority topics and avoids undue overlap.**

**(Paragraph 103)**

**The proposal for the National Audit Office to take on this role is workable and, as we note above, may have some advantages over the existing arrangements. However, the way in which the announcement was made did not show a proper respect for the constitutional position whereby the Comptroller and Auditor General, the head of the NAO, is an officer of Parliament, and the funding for NAO work is granted directly by Parliament, through the Public Accounts Commission, rather than by Government. It is not for the Secretary of State—any Secretary of State—to transfer work to the National Audit Office without proper consultation with Parliament first.**

**(Paragraph 104)**

**The transfer of responsibility for national value for money studies to the NAO involves a transfer of costs from DCLG to Parliament. We recommend that the Comptroller and Auditor General make an assessment of what it will cost to ensure that the NAO is able to carry out an adequate programme of VfM studies of local government expenditure; that he discuss his requirement for the necessary resources with the Public Accounts Commission; and that DCLG make a clear transfer of the necessary resources to the Public Accounts Commission from the savings from the abolition of the Audit Commission.**

**(Paragraph 105)**

40. The Government agrees with the Committee's conclusion that there are advantages to a unified approach to reporting on the value for money of public expenditure across local and central government. The National Audit Office's programme of value for money studies is ultimately a matter for the discretion of the Comptroller and Auditor General (paragraph 103).
41. The Government agrees with the Committee's view that it is not for the Secretary of State to transfer work to the National Audit Office without proper consultation with Parliament first. Whilst we have discussed our developing proposals with the National Audit Office, the changes will need primary legislation and therefore be subject to full parliamentary scrutiny.
42. As we have noted, whilst we can see the benefits of a unified approach to the assessment of value for money, we currently envisage the decision to carry out any such work would be at the discretion of the Comptroller and Auditor General. It would be a matter for the Comptroller and Auditor General to secure funding for any such work from the Public Accounts Commission. The Government will factor the additional cost of any such work into its own assessment of the overall savings arising out of the policy to abolish the Audit Commission (paragraph 105).

## **Conclusion**

**In implementing these changes, the Government must be mindful of the fact that that devolving power to local government and communities does not absolve it of the responsibility to construct a system which continues to provide accountability for public money and which results in better value for money. That is so more especially whilst the lion's share of local government spending remains funded by central government.**

**(Paragraph 109)**

43. The Government decentralisation agenda aims to place responsibility for meeting the needs of local people firmly in the hands of local councils and other local public bodies. The Government is committed to the establishment of a new local public audit framework which reflects its localist and decentralist aims, enhances transparency, ensures consistent, high quality and independent audit services, and achieves value for money for the public purse. We intend to set out our detailed proposals for the new framework (and on which we intend to legislate as soon as Parliamentary time allows) in a Government response to the *Future of Local Audit* consultation later in the autumn.



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