

**Interview with Daily Telegraph**

**12:00am**

**Thursday 12 August**

**Lines to take**

*What I propose*

- I propose to disband the Audit Commission, and refocus audit of Councils and other local bodies on helping local people hold those bodies to account for local spending decisions.
- My aim is to replace the current centralised audit systems, managed by the Audit Commission, with new decentralised audit, which will provide genuine support for local democratic accountability, and save tax payers some £50m per year.
- Specifically, I plan to stop the Commission's responsibilities for overseeing and delivering audits of councils, NHS trusts and other local bodies, including the police; its research activities will end; its audit functions will be moved to the private sector; councils will be free to appoint their own independent external auditors from a more competitive and open market; and there will be a new audit framework for local health bodies.
- So, I intend to disband the Audit Commission and free councils to appoint their external auditor – with protections to ensure independence, and audit quality.
- All local audits will be regulated within a statutory framework overseen by the National Audit Office and the profession.
- The aim is for the new system to be in place from the 2012/13 financial year.

*Why change?*

- My priorities in this department are about localism, localism, localism. We have made rapid progress and you'll be aware of changes we have already announced – such as scrapping the Comprehensive Area Assessment.
- I recognise the fundamental importance of accountability for how public money is spent. Public audit principles – independence, wide scope and public reporting – will continue but the architecture around how audit is managed and delivered will change.

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- I am not convinced that what is, in effect, the fifth largest UK audit firm needs to be in the public sector. I understand they do a good job – I'm just not sure why they are part of my responsibilities. The business of the in-house practice should be able to compete in an open market.
- The centralised approach managed by the Audit Commission has become bloated – and increasingly reports upwards to Whitehall not to audited bodies and local people. We need to cut bureaucracy and costs. We want audit whose focus is to help local people to hold local bodies to account for local spending decisions.
- It should also be cheaper. Much of the Audit Commission's central bureaucracy – and activities like National Studies – are not needed. Private firms are prepared to work at fees lower than those charged by the Commission to the audited bodies. The decentralised approach will cut bureaucracy and costs, saving the tax payer some £50m per year.
- With our commitment to cut local government inspection the future focus of inspection activity will be where public welfare is most at risk; I do not believe the Commission is needed for any continuing inspection.
- The Government is committed to promoting decentralisation and democratic engagement and ending the era of top-down government by giving new powers to local councils, communities, neighbourhoods and individuals. This needs to be underpinned by audit reporting not upwards to Whitehall departments but to local people.
- The proposed changes go hand-in-hand with plans to create an army of armchair auditors – local people able to hold local bodies to account for the way their tax pounds are spent and what that money is delivering.
- For local government, these changes are part of the Government's wider focus on transparency that will bring about a revolution in town hall openness and accountability. Local people will now be the audience for assurances that they are well governed, their council is financially robust, achieving value for money and providing accurate information and data.
- This will complement the steps we are taking to strengthen individual citizens' rights of redress should they receive poor council services by enhancing the role of the Local Government Ombudsman. We are planning to make the Ombudsman's findings legally enforceable.

### *How are we going to do it?*

- We will now be working closely with the Audit Commission, the accountancy profession, and the local government and health sectors to fully develop the detailed design of the new systems, and to take forward

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in the most effective way the transfer of the Commission's in-house audit practice into the private sector.

- A range of options will be developed for converting the audit practice into a business independent of Government, which could be sold or otherwise transferred into the private sector. We will invite the Commission to bring options to the table. We will then decide the best way forward.
- These options might include trade sell through to management buy out or creating a mutual, such as John Lewis, where the business is owned by all the employees.
- The Commission's research activities will stop, ending duplication with others and strengthening the National Audit Office's role in this area.
- I envisage responsibility for overseeing the current anti-fraud data matching functions will be transferred to the National Audit Office, or to other bodies currently operating data matching systems. These include private firms and government departments, such as DWP.
- For the NHS plans are being developed to establish a new audit framework for local health bodies. Audit changes in health will be consistent with the vision set out in *Equity and Excellence: Liberating the NHS*. The aim is for audit assurances that support the democratic accountability now proposed, as well as the accountability and responsibilities of the new NHS Commissioning Board and Monitor as economic regulator.
- I recognise that there is a great deal of detailed design work to do. I am making this announcement now so that we can start in earnest.

**FUTURE OF LOCAL AUDIT – Q&A****5 AUGUST 2010**

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## Part A: CONTEXT

### What is (public) audit?

The public expect that those responsible for handling public money are held fully accountable for the use of that money. The responsibility for local spending decisions should rest with local decision makers, with Parliamentary oversight.

Audit is an important aspect of strengthening accountability. It is an important way of discovering irregularities in financial matters - whether fraud, corruption, or procedural failure - and for providing reasonable assurance and confidence that public money is being properly spent.

External public auditors work with internal auditors to promote better management and decision-taking, and play an important role in the corporate governance arrangements of public bodies.

### What are the principles of public audit?

The UK's national auditors have identified three fundamental principles which underpin public audit:

- the independence of public sector auditors from the organisations being audited;
- the wide scope of public audit, that is covering the audit of financial statements, regularity (or legality), propriety (or probity) and value for money; and
- the ability of public auditors to make the results of their audits available to the public, and to democratically elected representatives.

### Why does audit need to change?

Audit has established principles for public audit – independence, wide scope and transparency. Those principles will be strengthened but there are two drivers for change:

- **Localism** – We set out our commitment in the Coalition Agreement to a fundamental shift of power from Westminster to people. We are promoting decentralisation and democratic engagement, and we will end the era of top-down government by giving new powers to local councils, communities, neighbourhoods and individuals. All this needs to be underpinned by audit and assessment reporting not upwards to Whitehall departments but to local bodies and local people.
- **Cutting bureaucracy** – The current arrangements are needlessly costly. The central bureaucracy costs of the Commission costs some £50m a year, funded by excess fees on audited bodies – even where the audits themselves are undertaken by other. Private firms could work directly for audited bodies at lower costs and central activities could be stopped.

## **Part B: WHAT ARE THE PROPOSALS**

### **What are you proposing?**

With localism, local public bodies principally need to operate within a framework of local democratic accountability and transparency. They still need to have accountability to Parliament for the use of public funds but there is at most limited accountability to Government. The aim therefore is to create an accountability framework fit for a localist world.

For these reasons, the aim is to create a new decentralised local audit applicable to councils and fire and rescue authorities, which could equally apply as appropriate to the police and health bodies, where:

- Councils will be free to appoint professionally qualified auditors with stringent safeguards for independence;
- Audit quality will be regulated within a statutory framework, overseen by the National Audit Office and profession;
- The Commission's in-house audit practice will be transferred from public ownership;
- The Commission's work on anti-fraud data matching would transfer to the National Audit Office or other organisation with data matching expertise; and
- The Commission's research activities would stop; ending duplication with others and strengthening the National Audit Office's role in the area studies.

The aim is for such a system to be in place from 2012/13.

### **Why will your proposals increase local accountability?**

Local accountability will increase because the focus of auditor's reporting will be to local bodies and local people. That greater transparency and visibility of auditors work will help local people hold local bodies to account for local spending decisions they make.

We will work with auditors and the audited to ensure consistent formats that assist in reporting the findings to local people.

### **What happens to inspection?**

We are currently reviewing inspection in line with the Coalition Agreement to cut the burden further. The Comprehensive Area Assessment has already been abolished saving millions and avoiding wasted time spend on profligate reporting.

### **What happens to their national reports – like exposing the costs of local government pensions?**

Public bodies are increasingly working more closely together. It makes sense that national studies should be undertaken by a body able to look across all public expenditure and that suggests the National Audit Office. Removing duplication will

increase the value and weight of each report about how the system for spending local public money operates and could be improved.

In 2008/09 the Audit Commission published 23 national studies. There were countless other reports by countless other bodies making countless recommendations. The scrapping of these reports will save millions.

### **What happens to the anti-fraud work which has recovered millions?**

It's clearly important that the success of the National Fraud Initiative is maintained in the future

We will therefore look carefully at where best to reassign responsibility for the NFI.

Options include the NAO with its duty to protect the public purse, and the Department for Work and Pensions with its existing, extensive data matching functions both for detecting benefit fraud and supporting other Government departments.

### **What happens if a council / fire authority/ health trust / police authority fails?**

Serious corporate failure is very rare in local public bodies. The robust system of public audit we envisage will not only review financial accounts for what has been spent but the financial resilience of organisations looking forward and the standard of their corporate governance.

Auditors will retain their ability to issue public issue reports and will now be able to undertake special investigations where they, the body itself or inspectorates raise concerns. In the extreme case of corporate failure Government will retain its rights to step in as a last resort.

### **Who will undertake the Audit Commission's assurance role for the Fire and Rescue Service in England?**

We are reviewing options. On 28 July the Fire Minister, Bob Neill announced that the Coalition Government will no longer needlessly intervene where the National Framework is not strictly adhered to. Issues which will now also be left to local decisions include: equality and diversity, and workforce development.

### **Won't this make it more difficult to create community budgets looking across spend?**

Local public bodies are increasingly working together and considering how their individual spend in a place can work better together. We are looking at ideas, for example the LGA's Place Based Budgeting proposals, for moving toward more pooling in 'Community Budgets'. Irrespective of these changes this spend would still need to be audited and allowing local choice may make this easier not harder.

### **How will standards / quality be maintained?**

We envisage the National Audit Office having oversight of the auditor code, which will continue to need Parliamentary approval. We also envisage a continuing role for the independent Audit Inspection Unit in quality assuring a sample of firms audits and will consider whether there is a need for additional oversight due to the broader nature of public audit.

Audit firms themselves also protect their professional reputation through rigorous internal processes for ensuring audit quality and demonstrating independence.

Additionally we are minded to consider a qualifying process for audit firms to ensure they meet the necessary criteria for public audit, from which bodies could select their auditor in confidence they already meet competency and quality thresholds.

**Doesn't this increase the risk of too cosy a relationship between councils and their auditor – making an Enron-type scandal more likely?**

Nothing in today's announcement changes the fundamental principle of auditor independence. Furthermore, we are planning to introduce stringent safeguards for providing reasonable assurance on the auditor appointment, while providing the public a right of challenge for the first time.

Additionally, we will consider limitations on the period of audit appointment, to say five years, before bodies are required to tender their audit, taking into the need to balance any risks to independence with the benefits of familiarity.

**Why are private firms better than the Audit Commission?**

The Audit Commission's in-house practice does a good job. It just doesn't need to be part of the public sector to do it. We have faith that the in-house practice could thrive by being setting free from the central bureaucracy as a stand alone enterprise. There are a range of options for achieving independence which we will consider with the Commission and others over the next three months.

**What happens next?**

We will now be working closely with the Audit Commission, the accountancy profession, and the local government and health sectors to develop the detailed design of the new systems. We intend to seek the necessary legislation in this Parliamentary session.

As the Press Notice makes clear, with partners we will be developing and evaluating a range of options for converting the audit practice into a business, which could then be transferred into the private sector. Having evaluated the options, we will then take forward in the most effective way the transfer of the in-house audit practice into the private sector.

**When will the transfer to the private sector take place?**

The timing of any such transfer will depend on the option chosen. Our aim will be to move as quickly as practicable, consistent with achieving the most effective transfer.

The Press Notice states that our aim is for the changes to be in place from 2012/13.

### **What do you mean by the most effective transfer?**

An effective transfer is one which gives value for money to the public purse and achieves outcomes which support the government's policy aims for local democratic accountability and ensuring continuing robust audit for local public bodies.

### **What are the options for transferring the business of the Commission's in-house audit practice into the private sector?**

There are a wide range of options, in many of which there are a number of permutations. These might include:

- **Mutualisation** would mean setting up the business of the Commission's in-house audit practice so that it was owned by its employees.
- **Employee ownership** would mean the business of the Commission's in-house practice would in part – perhaps 10% - be owned by its employees; the remainder could be owned by a purchaser of the business.
- **Trade sale** would involve the business of the Commission's in-house audit practice being bought by a private sector organisation; a possibility would be an organisation already within the audit market. The in-house practice could be sold as a single whole, or as a number of parts, perhaps regionally.
- **Management buy out** would involve the Commission's managers becoming owners of the in-house audit practice as a private company. They, and others, eg venture capitalists, would provide the necessary capital.

### **What will happen to the Audit Commission's employees?**

The Audit Commission does a good job, but government is not convinced that what is, in effect, the fifth largest UK audit firm needs to be in the public sector. The business of the Commission's in-house practice should be able to compete in an open market. Setting the Commission's audit practice free will empower its auditors.

### **Where does the Local Government Ombudsman fit into this?**

If a member of the public has a concern about the misuse of public money, they should contact the local authority's auditor.

If a member of the public receives a poor council service and as a result suffers injustice they can look to the Ombudsman for redress.

The Local Government Ombudsman is the body charged by Parliament with investigating complaints from individual members of the public who consider that they have suffered injustice arising from maladministration by a local authority or other bodies (these include private care homes) within the Ombudsman's remit.

Redress awarded by the Ombudsman can take the form of compensation, the council taking remedial action, and/or an apology.

Currently, the Ombudsman recommends redress. Government is planning to strengthen the Ombudsman by making the Ombudsman's findings legally enforceable.

### **How is Government working to reduce inspection?**

Greg Clark, Minister for Decentralisation, is leading work with Ministers across government to consider how to further reduce assessment and inspection burdens. The review will consider the inspection of all public services. Departments are seeking to develop initial proposals by the autumn.

## **Part C: FINANCIAL**

### **Why will your proposals save money?**

The proposals will save money in two ways – one, audited bodies will no longer need to fund superfluous activities in the central Commission and two, we will open the public audit market to greater competition.

As part of the developing policy we will be undertaking an impact assessment which will quantify costs – and benefits – further.

### **How much will the disruption cost?**

The Audit Commission is already driving efficiencies in its in-house practice and will continue to do so. As part of the developing policy we will be undertaking an impact assessment which will quantify costs – and benefits – further.

### **How much is paid in Audit fees?**

In 2009/10 the Audit Commission total income was £213.1m of which over four-fifths came from audit fees – totalling £175.5m – with inspection fees of £35m. Audit income from local government was £112.7m and £62.8m from health.

Overall audit and assessment fees in local government increased from £80m in 1997 to £150m in 2010. The Commission has been working to reduce fees – and even before the abolition of CAA – was expecting overall income to decline by £27m over the next three years.

### **How much does the Commission cost?**

The Commission's total costs were £220.3 million in 2009/10 (2008/09: £210.1 million).

One of the main reasons for the increase in the salary bill for 2009/10 was the £5.3 million one-off cost of redundancies associated with the reduction in workload as AIB numbers fall and work programmes are cutback. As the work programme decreases the Commission's bill for staff salaries will reduce.

Before the announcement that CAA would stop, the Commission's financial strategy was to reduce costs by £32.1 million by 31 March 2013. The Commission are updating this forecast to reflect recent developments and increase savings in line with expectations of 25 per cent real-term cuts across the public sector

### **Won't big firms just increase costs?**

Private firms already work for audit bodies via the Audit Commission, contributing £50m to overall income from around 30% of the audit work. The aim is to open the market to greater competition to help drive down fees.

We will consider options for ensuring costs do not increase and there are real savings from stripping out duplication and bureaucracy. If necessary, the Government may retain a power to set fee levels.

**Will local bodies be able to contract firms at better prices?**

Local bodies will be responsible for contracting their external auditor. They will be free to choose. They will also be free to choose whether to contract in partnership with other local bodies or alone.

As we develop detailed proposals, in discussion with audited bodies and audit firms, we will consider whether it would be helpful for a register of qualified audit firms to be established to speed up selection and ensure firms are capable of public audit work.

## Part D AUDIT COMMISSION

### What is the Audit Commission?

The Audit Commission for Local Authorities and the National Health Service in England (the Audit Commission) is an independent watchdog responsible for ensuring local public organisations such as councils, the NHS, housing, probation services, the police and the fire service, which between them spend over £200 billion of taxpayers' money every year use that public money economically, efficiently and effectively.

The Commission is a non-departmental public body sponsored by CLG and is classed as a public corporation. It was originally established in 1983 with a remit to audit councils, either itself or by appointing audit firms, across England and Wales. Since then it has significantly extended its reach into the field of service inspection and performance monitoring across 11,000 local bodies in both local government (including the police, fire & rescue and other bodies such as National Park authorities) and health sectors.

The Audit Commission has around 2,000 staff, of which 1,400 work in the audit practice, based in nine regional offices as well as having a presence in most councils. The Commission also has a Board of 13 Commissioners, appointed by the Secretary of State and responsible for setting the strategic direction, monitoring performance and budget matters.

### What does the Audit Commission do?

The purpose of the Audit Commission is to raise standards of financial management and financial reporting, challenge public bodies to deliver better value for money, encourage continual improvement in public services, promote high standards of governance and accountability and stimulate significant improvement in the quality of data and the use of information by decision makers.

The work of the commission spans four main areas:

- **Audit:** The Commission is the primary auditor of local public services, responsible for appointing auditors to over 11,000 public bodies. This can be the Commission's own audit practice or a private firm. At present 70% of audits in local authorities are undertaken by the Audit Commission's audit practice.
- **Assessment:** The Commission carried out performance assessments for councils, fire and rescue services, and housing organisations. Comprehensive Area Assessment has been abolished. This will lead to staff reductions at the Audit Commission of up to 500 staff and a saving of up to [£10m]. The Commission is funding the redundancies from its own reserves.
- **Research:** The Commission undertakes research and produces national reports. In 2008-2009 it produced 23 national reports including 'Tougher at the top' about the role of local authority Chief Executives, 'Well disposed' about how councils are responding to the challenge of reducing the amount of waste sent to landfill and 'Risk and return' about how the collapse of banks in Iceland

affected English local authorities (acknowledging that the Commission itself lost £10m it had deposited in Icelandic banks).

- **Data-matching:** the Commission helps bodies detect fraud and error by comparing sets of data, such as payroll or benefits records. The Commission's National Fraud Initiative (NFI) has identified £664 million of fraud and overpayments since it was established in 1996. Areas under NFI scrutiny include council tax discounts, housing benefits and blue badges.
- **Assurance:** the Commission currently provides assurance to the Secretary of State that Fire and Rescue Authorities are complying with the requirements of the Fire and Rescue Service National Framework (current version covers 2008 to 2011).

### **Who does the Audit Commission audit and inspect?**

The Audit Commission is responsible for appointing auditors to councils

It can appoint its own in-house practice or private firms. It appoints the in-house practice for approximately 70% of the work.

In 2008/09, the audit practice was the appointed auditor to 580 principal bodies and some 2,500 small bodies (charities, parish and town councils and internal drainage boards).

Detailed breakdown

County councils – 25/ out of 27  
*Unitary councils – 59/ 55?*  
London boroughs - 20/ 33  
District councils – 162/ 201  
Police authorities – 32/  
Fire and rescue authorities – 46/  
Probation boards – 29/  
Strategic health authorities – 10/  
NHS trusts – 89/  
Primary care trusts – 106/  
Other 22

As at 31 March 2009, the audit practice was also the appointed auditor for 50 NHS Foundation Trusts (out of 115 at the time).

### **Who manages the Audit Commission?**

The Audit Commission is a public corporate sponsored by the Department for Communities and Local Government.

The Chairman is Michael O'Higgins. The acting Chief Executive is Eugene Sullivan.

The Commissions governing board is made up of several Commissioners, who are appointed by Communities and Local Government.

## **Part D PUBLIC BODIES**

### **What is the public bodies reform bill?**

The purpose of the Bill is to ensure that there will be a greater degree of transparency and accountability for all Public Bodies ('quangos'); and provide Ministers with the powers to abolish, merge or transfer functions.

The main benefits of the Bill would be cutting the number of public bodies, reducing the cost of bureaucracy (anticipated year on year savings of £1 billion) and new powers to allow Ministers to abolish, merge or transfer functions from public bodies.

As at 31 March 2009, there were 766 non-departmental public bodies. They spend over £46 billion a year and employ over 110,000 people.

## **Appointments**

### **In the event of one of the Commissioners going public with a protest**

We have made as yet no announcements about appointments or reappointments. Given our future plans for the commission there will need to be a different mix of skills on the board and we will wish to strike a balance between maintaining experience and introducing new skills.

So of the five commissioners now ending their first term some will be reappointed, but others will not be to give scope for introducing a different skills mix.

But we can be clear that for those not reappointed this is no reflection on their performance or the service they have given, we are very grateful for the service they have given.

### **Why has X not been reappointed**

We have not made any announcement about appointments as yet. When we do so, it will be clear who has been reappointed and who has not.

### **Can you confirm that X is not reappointed**

We will be announcing our decisions on appointments in the coming weeks.

**Didn't the Audit Commission expose the "homes for votes" scandal when, between 1987 and 1989, council homes were sold at discounts to potential Conservative voters in marginal wards in the City of Westminster?**

At that time the audit of the City of Westminster Council was carried out by a private sector auditor.

**Without the function of the Audit Commission who will step in when a council is failing, as Doncaster was recently?**

Serious corporate failure is very rare in local public bodies. The robust system of public audit we envisage will not only review financial accounts for what has been spent, but the financial resilience of organisations looking forward and the standard of their corporate governance.

Auditors will retain the ability to issue public interest reports and will now be able to undertake special investigations where they, the body itself or inspectorates raise concerns. In the extreme case of corporate failure Government will retain its rights to step in as a last resort.

**Did you discuss the proposals with the Audit Commission before the announcement was made that the Commission is to be disbanded?**

The Secretary of State discussed his proposals with Michael O'Higgins, Chairman of the Commission, on the morning of Friday 13 August, which gave the Commission time to inform its staff of the proposals ahead of the announcement being made the following day. The announcement was subsequently made the same day as news of the proposals had become public knowledge.

The Audit Commission was also working on proposals to transfer some of its in-house audit practice into the private sector.

**Embargo: 0600, Sat 14 August 2010**

## **PICKLES TO DISBAND AUDIT COMMISSION IN NEW ERA OF TOWN HALL TRANSPARENCY**

Communities and Local Government Secretary Eric Pickles has today announced plans to disband the Audit Commission and refocus audit on helping local people hold councils and local public bodies to account for local spending decisions. The changes will pass power down to people, replace bureaucratic accountability with democratic accountability and save the taxpayer £50 million a year.

The new Government will set in train measures to radically scale back centrally imposed, bureaucratic and costly inspection and auditing, saving council taxpayers money. The audit expertise of the Commission will be moved into the private sector.

The Audit Commission's responsibilities for overseeing and delivering local audit and inspections will stop; the Commission's research activities will end; audit functions will be moved to the private sector; councils will be free to appoint their own independent external auditors from a more competitive and open market; and there will be a new audit framework for local health bodies. This will save council taxpayers' money and decentralise power.

Ministers believe that the work of the Commission has increasingly become less focused on accountability to citizens and more on reporting upwards to Government, judging services largely against top down Government imposed targets.

As a result of the changes, the Audit Commission's in-house audit practice, which is the fifth largest audit practice in the country, will be transferred out of public ownership. A range of options will be developed for converting the audit practice into a business independent of Government which could be sold or otherwise transferred into the private sector.

A new decentralised audit regime will be established, replacing the Audit Commission and providing genuine support for local democratic accountability. This new decentralised approach, applicable to local government, police, and local health bodies, will:

- **Shift power from Westminster to people.** Local people, not Whitehall, will now be the audience for the assurances audit gives on local spending decisions. The Government is committed to promoting decentralisation and democratic engagement and ending the era of top-down government by giving new powers

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to local councils, communities, neighbourhoods and individuals. This needs to be underpinned by audit reporting not upwards to Whitehall departments but to local people.

- **Citizens' rights:** The powers of the separate Local Government Ombudsman will be strengthened, to give residents greater rights when local services go wrong.
- **Save the taxpayer over £50 million a year.** This will include saving the central and corporate costs of the Audit Commission, currently paid for by the Commission's fees including a surcharge on audits, including those by private firms. In addition, councils will be able to appoint their own independent external auditors from a more competitive and open market among audit firms, reducing costs.
- **Maintain auditing standards.** Councils and local health bodies will still be subject to robust auditing. Protections will be developed to ensure independence, competence and quality, including audit quality regulated within a statutory framework, overseen by the National Audit Office and profession. The Commission's research activities would stop; ending duplication with others and strengthening the National Audit Office's role in this area.
- **Protecting children and the vulnerable:** Inspection and intervention will remain for the most vulnerable to protect public welfare, including children's services and adult social care

Secretary of State for Communities and Local Government Eric Pickles said:

"The corporate centre of the Audit Commission has lost its way. Rather than being a watchdog that champions taxpayers' interests, it has become the creature of the Whitehall state.

"We need to redress this balance. Audit should remain to ensure taxpayers' money is properly spent, but this can be done in a competitive environment, drawing on professional audit expertise across the country. I want to see the Commission's auditing function become independent of Government, competing for future audit business from the public and private sector.

"These proposed changes go hand in hand with plans to create an army of armchair auditors - local people able to hold local bodies to account for the way their tax pounds are spent and what that money is delivering."

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### Notes to editors

For local government these changes are part of the Government's wider focus on transparency that will bring about a revolution in town hall openness and accountability. Local people will now be the audience for assurances that their council is spending money wisely, that they are well governed, their council is financially robust, achieving value for money and providing accurate information and data.

This will complement plans to strengthen individual citizens' rights of redress should they receive poor council services by enhancing the role of the Local Government Ombudsman through making his findings legally enforceable.

District auditors will retain a duty for reporting issues in the public interest. They will be able to undertake special investigations where they, the local government sector or any continuing inspectorates such as Ofsted in the case of children's services, or Care Quality Commission on adult social care, raise concerns about a council. Following any such investigations auditors will report locally and be able to make recommendations to the council, the sector, inspectorates, and if necessary to Government.

For the NHS, plans are being developed to establish a new audit framework for local health bodies. Audit changes in health will be consistent with vision set out in *Equity and Excellence: Liberating the NHS* designed to provide assurances that support the democratic accountability now proposed, and the accountability and responsibilities of the new NHS Commissioning Board and Monitor as economic regulator. The new framework will not compromise the Department for Health requirement to report to Parliament. The expectation is that greater use will be made of competitive open market auditor appointments, with appropriate protections to ensure quality and independence.

For the police these changes will ensure there continues to be robust arrangements for audit, the detail of which is being developed as proposals for directly elected Police and Crime Commissioners are taken forward. These audit arrangements will complement the responsibilities of Her Majesty's Inspectorate of Constabulary, which will continue to oversee the police.

Communities and Local Government will now be working closely with the Audit Commission, the accountancy profession, and the local government and health sectors to develop the

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detailed design of the new systems. We intend to seek the necessary legislation in this Parliamentary session.

The aim is for such a system to be in place from the 2012/13 financial year, with the necessary legislation being sought in this Parliamentary session.

The NAO is independent of government and the auditor of central government bodies. The NAO is therefore well placed to provide the oversight role for the audit of local government and health and would need to be able to rely on the work of local auditors when forming its audit opinion on the adequacy of assurance provided by departments. Combined with its existing functions, the oversight role would enable the NAO to report to Parliament on the quality of audit across the local government and health sectors, and on the economy, efficiency, effectiveness, and productivity of these sectors.

**ENDS**

## PROJECT ARMCHAIR - DRAFT NARRATIVE

### *Shifting control*

- Most people agree we are in the midst's of an economic crisis. I believe we are also in a democratic crisis. We have become too centralised. Too controlling. Too bureaucratic.
- Power is remote and removed from the people it serves. That's why I am shifting control – from Whitehall and Westminster to councils, citizens and communities.
- The structural reform plan announced this month is a radical shift of power. It will make the Big Society part of every day life over the next 18 months.
- My department will deliver radical decentralising and transparency reforms that put citizens and councils in control of their communities implementing the reforms set out in the Coalition agreement.
- We believe in decentralisation because on the whole things are better done when close to the people directly affected, so that they can judge whether those serving their needs are doing so effectively. That's why I will be introducing local referendums and enabling people to participate in budgeting.
- It is why we are releasing the immense power of transparency so that decision makers can not hide from their decisions and as a result are more likely to deliver better services. And so people can hold them to account for doing so.
- And it is why I want to ensure accountability of councils, health trusts, the police and all other public bodies is to those they are in business to serve. If they are accountable to them, rather than some proxy in Whitehall or Westminster, they will do more to listen and respond to what people want and need.

### *The Audit State*

- In the late 1970's central government handed over £20 billion a year to local authorities with next to no way of tracking expenditure. Poor standards of financial management in the public sector created an expectation gap - the public expect that those responsible for handling public money are held fully accountable for the use of that money.
- The Audit Commission was born with a remit to protect the public purse. Efficiency, economy and effectiveness became the new lexicon and undoubtedly the Commission made its mark - the quality of local government has been transformed but now it goes well beyond the original remit.
- When the state lacks trust in local public bodies managing their own affairs it creates an expensive central bureaucracy to monitor and enforce compliance.
- So today we hand over nearly [£80] billion a year but impose regulations, controls and conditions to track every penny. The Audit Commission now costs well over £200m and to feed the beast needs to levy fees on local communities over and above its costs (£52.1m).
- Meanwhile, performance managers in the audited bodies dance to the tune of the auditors and inspectors not citizens and communities. The Audit Commission today fosters compliance not improvement – its part of the problem, not the solution.

- It's time for a control shift. It's time to put town halls back in charge of local affairs. It's time they were accountable to citizens and communities.

### ***Show me the money***

- Mayors, leaders, cabinets and councillors, once elected must have sufficient freedom to decide the tone and priorities of their administration, while subjecting themselves to the judgement of their citizens.
- We are already taking steps to ensure greater financial transparency in local government spending.
- The Localism Bill will shift power from the central state back into the hands of individuals, communities and councils. It will give local people – individuals and community groups – more power over local government and over how public money is spent in their area, and ensure that councillors are more directly accountable to them. It will free local government from central and regional control so that they can ensure services are delivered according to local needs.
- And independent audit continues to have a crucial role. But in showing people - not Whitehall - the money their authorities spend on their behalf. It must challenge the easy doctrine that if you have to cut costs you have to cut services, so public bodies find ways of delivering more for less.

### ***Follow the money - audit***

- Do local bodies need a central machinery to appoint auditors, adding overheads, cost and complexity? It is argued that the Audit Commission ensures independence of external challenge – yet it appoints mainly its own auditors (70% of the time – only 30% is from private practice).
- Yet most public bodies have audit committees central to their good corporate governance. They challenge the executive; have independent members and minds, and report knowledgeably directly to the board, independent from executive and scrutiny functions.
- Local independent 'Audit Committees' should be trusted to appoint the external auditor, who should report directly to them and to local people.
- Immediately the inflated audit costs due to Commission's need to cover its own expense is tamed. Genuine competition in the public audit market should see fee rates tumble by around a third. These savings can then be returned to audited bodies, estimated at saving at least £65m annually.
- And by floating off the Commission's audit practice we are creating the fifth largest audit practice in the UK with 1,400 staff and gross income from audit fees of £135m. We are freeing the frontline to further enhance competition – not cutting staff but cutting them free from our control.
- We will review options for the future of the practice, which retain its expertise, but enable genuine local choice and lower fees will be considered over the summer.

### ***Find the money – assessment and research***

- The Comprehensive Area Assessment has already been abolished. Local bodies are responsible for improving their performance and delivering more for less.
- Additionally we will further cut local government inspection. We want to see a much more proportionate approach to inspection, focussed on the highest risks, and the needs of the most vulnerable.

## DOCUMENT 28

- The Audit Commission's original research reports were once trailblazing and commanded attention due to their use of in-depth data, analysis and innovative reporting. Today the world has moved on.
- The i-pad generation wants real time and relevant data. The Audit Commission is only one of many organisations providing data and analysis. It competes with other institutions and innovators.
- My approach will sweep away the expensive national studies, eliminating duplication with the National Audit Office, who will lead on studies of public expenditure issues of national importance.

### ***Keep the money - summary***

- The Audit Commission focussed on value for money but became an agent of centralising control and compliance. It no longer meets its own tests.
- We're shifting control to communities and councils. Abolishing the Commission and freeing local bodies to lead – while retaining external challenge - we will be letting local people judge how their leaders decided to spend the money in their community. This is truly radical localism – enable people to hold public bodies to account for the decisions they make on local spending.