

The abolition of the Audit Commission

Purpose of report

For information and decision.

Summary

On 13 August 2010, Eric Pickles MP, Secretary of State for Communities and Local Government, announced plans to disband the Audit Commission and to refocus audit on helping local people hold councils and local public bodies to account for local spending decisions.

The intention is to have the new arrangements in place for auditing England's local public bodies by 2012/13. This report provides further information about the proposed timescales and highlights some of the main transitional issues. Key things to note are that:

1. The Commission intends to complete their existing programme of risk based inspections and report by April 2011;
2. The Commission will be responsible for the 2011/12 audit and will consult on the scale of audit fees;
3. The Commission has reviewed and scaled back its studies programme.

Initial discussions with CLG about some of the practical implications are due to take place after this report has been finalised and Members will be updated orally at the Away Day.

Recommendations

That officers be asked to further explore the practical issues involved in the abolition of the Audit Commission in more detail with CLG, the Audit Commission and the National Audit Office and report back to the Board in due course.

Action

Officers to explore the practical issues with CLG, the Audit Commission and National Audit Office and report back to the Improvement Programme Board in due course.

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The abolition of the Audit Commission

Background

1. On 13 August 2010, Eric Pickles MP, Secretary of State for Communities and Local Government announced plans to disband the Audit Commission and to refocus audit on helping local people hold councils and local public bodies to account for local spending decisions.
2. In summary 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.
3. These changes are part of the Government's wider focus on transparency. Government proposes that local people should 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.
4. The intention is to have new arrangements in place for auditing England's local public bodies by 2012/13 and this report provides further details about the practical implications – as far as they are known at this stage.
5. **Inspection:** The Audit Commission has wide powers to inspect under section 10 of the Local Government Act 1999, and the Local Government and Public Involvement in Health Act 2007. Until recently the Commission undertook service inspections (of culture, environment, housing and benefits) and cross-cutting inspections (access to services, regeneration, community safety) adopting a generic framework requiring self-assessments and assuming 44 days inspectorate time.
6. These inspections were recently overtaken by a new risk-based approach where the focus of inspection and the time taken was tailored to the issue under review – in line with the approach set out in the joint inspectorate consultation (*“Our approach to joint inspections triggered by Comprehensive Area Assessment - Consultation document. January 2010”).*
7. It is understood that the Commission proposes to complete their current programme of risk based inspections, with inspection reports finalised by April 2011.

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8. **Audit and Audit Fees:** The Government's announcement about the abolition of the Audit Commission proposes a number of broad changes to the current approach to audit. Government proposes that:
- 8.1 local people, not Whitehall, will be the audience for the assurances audit gives on local spending decisions;
 - 8.2 councils will be able to appoint their own independent external auditors from a more competitive and open market among audit firms. At present the Audit Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England;
 - 8.3 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 after 2012. Over the next year 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;
 - 8.4 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;
 - 8.5 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.
9. At CLG's request the Audit Commission has provided a paper setting out a range of more detailed practical issues that will also need to be considered in developing the new framework for local audit. The paper is available here <http://www.audit-commission.gov.uk/aboutus/Pages/thefutureoflocalauditissuesforconsideration.aspx>

In particular the Commission has drawn attention to the following:

9.1 **The appointment and independence of auditors.** The Commission's report suggests that the most effective way of ensuring the independence of auditors is for them to be appointed wholly independently of the audited body. If Parliament decides otherwise, it should, the report says, ensure that the appointment process is open and transparent.

9.2 **Managing the market.** The report suggests that in a free market model some local authorities may find it hard to attract an auditor with the necessary

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skills and experience, at a reasonable price and that consideration should be given to the need to appoint an 'auditor of last resort'. In addition the report suggests that the current benefits of pooling auditors' costs will be lost and councils in remote geographical locations will have to meet the economic cost of the audit. In some cases this may be significantly higher than historical fee levels.

9.3 Code of Audit Practice. A new Code will be needed, underpinned by detailed guidance to ensure consistency of approach.

9.4 Small public bodies such as parish councils or internal drainage boards. The report suggests that it would be timely to review the wider governance and accountability arrangements for small local bodies such as parish councils. One option would be for them to be subject to internal audit by the relevant District council, which already acts as the precepting authority, on a cyclical basis. Internal drainage boards could be supervised by the Environment Agency. The report notes, however, that such changes in independence may not be welcomed and would appear to run counter to the policy of localism.

9.5 Monitoring and regulating the performance of auditors. There will be a continuing need for the quality of audit work to be monitored and reported on, both to provide assurance to audited bodies, the taxpayer, government departments and other stakeholders, and to provide market intelligence to those procuring audits.

10. **Audit Arrangements for 11/12:** The Audit Commission will be responsible for the 2011/12 audit of local public bodies. The Commission is under a statutory duty to consult on the scale of audit fees and this consultation is expected in the next few weeks.
11. **Research Studies:** The Commission is currently under a duty to undertake studies designed to help it make recommendations about economy, efficiency and effectiveness and to improve the financial and other management of local public bodies. The Government plans to strengthen the National Audit Office's role in this area.
12. Since the announcement about abolition the Commission has reviewed the studies programme, cancelling some and scaling back plans with regard to others. Currently the Commission is planning to complete the publication of the following studies:
 - 12.1 Savings in district councils from shared services and management;
 - 12.2 Local government workforce;
 - 12.3 Managing with less;
 - 12.4 Review and challenge in councils;

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- 12.5 Road maintenance;
 - 12.6 Schools workforce management;
 - 12.7 Improving value for money in adult social care;
 - 12.8 International Financial Reporting Standards (IFRS).
13. In addition, the Commission will be publishing the findings from its research in health and on a small number of other topics including the use of performance information, mainly in the form of briefing notes rather than full national reports. Some of the above local government list may also not be published as national reports, but in different ways such as data sets, tools or briefing notes, as appropriate in each case.

National Audit Office

14. The National Audit Office is independent of Government. Its role is to:
- 14.1 audit the accounts of all government departments and agencies as well as a wide range of other public bodies;
 - 14.2 report to Parliament on the economy, efficiency and effectiveness with which these bodies have used public money.
15. The National Audit Office (NAO) undertakes around 60 value for money studies each year as part of its overall aim to help Parliament and government drive lasting improvement in public services. Studies range across a broad area e.g. support to business during a recession; tackling problem drug use; preparations for the London 2012 Olympic and Paralympic Games.
16. Oversight of the NAO is carried out by the Parliamentary Public Accounts Commission.

Transition and Timetable

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

Conclusions and Next steps

18. This report updates the Improvement Programme Board about the Government's proposals regarding the abolition of the Audit Commission and a new approach to audit. The proposals are still at an early stage and there are a number of detailed issues to be worked through. It is suggested that officers be asked to explore the practical issues in more detail with CLG, the Audit Commission and the National Audit Office and report back to the Board in due course.

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Financial implications

19. The Government estimates that these proposals will save over £50 million a year. This includes saving the central and corporate costs of the Audit Commission. Because councils will be able to appoint their own independent external auditors from a more competitive and open market among audit firms, Government also believes this will reduce the cost of audit to councils.
20. There are no additional financial implications for the LG Group at this stage.