

By: John Simmonds, Cabinet Member for Finance  
Lynda McMullan, Director of Finance

To: Governance and Audit Committee – 15 September 2010

Subject: **Abolition of the Audit Commission**

Classification: Unrestricted

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**Summary:** On 13<sup>th</sup> August the Communities and Local Government Secretary, Mr Eric Pickles, announced that the Audit Commission would be abolished. This paper provides members with a summary of the latest position following the announcement.

## FOR INFORMATION

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### Introduction and background

1. On 13<sup>th</sup> August the Communities and Local Government Secretary, Mr Eric Pickles, announced that the Audit Commission would be abolished and replaced with a new decentralised audit regime, delivered through the private sector.
2. The press release from Communities and Local Government (CLG) is attached at annex 1 for information. Key points are:
  - The Audit Commission will be disbanded by 2013, with its research activities absorbed by the National Audit Office (NAO), lobby groups and think-tanks.
  - A new Audit regime for the 2012/2013 financial year, with audit provision to be wholly based in the private sector.
  - Local Authorities will be free to appoint their own auditors.
  - Audit quality will be regulated within a statutory framework, overseen by the National Audit Office and accountancy professions.
  - The Local Government Ombudsman will be given increased powers.
  - Savings of £50m.
3. The announcement from Mr Pickles also states that the Audit Commission's audit arm will be "...transferred out of public ownership" and that

"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."

It is therefore possible that the Audit Commission will continue as an audit function, either in direct competition with audit providers in the private sector or as a wholly owned subsidiary of one of the large accounting practices.

4. There is not much more actual detail in addition to the CLG press release and the subsequent press release by the Chairman of the Audit Commission, although there is much debate in the media about the positives and negatives of the announcement. It is apparent that most of the detail leading up to the eventual demise of the Audit Commission is subject to detailed discussion and negotiation. Communications within the Audit Commission also reflect this position.
5. The Audit Commission has sent the Council a holding letter explaining that the current audit arrangements will continue (see appendix 2). The Audit Commission Board is holding an emergency meeting on 31 August to consider the policy issues relating to the announcement and a more detailed letter will then be sent to Councils outlining the proposals for the next two financial years (2010/11 and 2011/12). This letter can be forwarded on to the members of the committee for information.

### **Impact on KCC**

6. The Council will continue have its External Audit provided by the Audit Commission for the next two financial years. The scope of this audit will be limited primarily to the annual accounts, although at present the statutory remit to give a value for money opinion remains.
7. If the CLG proceed in line with their stated timetable, legislation to enact the abolition of the Audit Commission will be sought in this Parliamentary session. This could mean that the value for money duty could be removed before the 2011/12 financial year, further reducing the External Audit burden for that year.
8. Once the framework for External Audit is clarified the Council will need to develop a tender specification document for the commissioning of its external auditor. It is most likely that the actual tender process will take place in the summer of 2012, and that members of the Governance and Audit Committee will be involved in the selection process. A draft audit specification is already being developed by Corporate Finance, and options for collaborative procurement explored.
9. Further updates will be provided to the Committee as more detailed information is released.

### **Recommendations**

10. Members are asked to note the report.

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[www.communities.gov.uk](http://www.communities.gov.uk)

Eric Pickles to disband Audit Commission in new era of town hall transparency

**Published** 13 August 2010

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 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."

**From:** Audit Commission [mailto:a-commission@audit-commission.gov.uk]  
**Sent:** 20 August 2010 13:18  
**To:** McMullan, Lynda - CED FIN  
**Subject:** Audit Commission announcement



Dear Mrs McMullan

You will have seen the announcement last Friday by the Secretary of State for Communities and Local Government about the proposed abolition of the Audit Commission. The proposed abolition will be from 2012 and the Government has announced its intention to seek legislation in this session of Parliament.

I am writing to confirm that there is no immediate change to the audit arrangements for your authority. As you are aware, your auditor is currently completing the audit of your 2009/10 accounts and preparing the accompanying annual audit letter.

I recently wrote to you outlining our proposed approach to the value for money element of the 2010/11 audit and this remains our planned approach. That letter also said that we will confirm the final position on 2010/11 audit fees following our September Board meeting.

For the limited number of planned Audit Commission inspections, we will be in touch with those authorities affected to agree the way forward.

We are in discussion with the Department about the proposed legislation and the details that will need to be worked through. I will write to you again in due course about the future audit programme and any changes to audit arrangements.

Yours sincerely

Gareth Davies  
*Managing Director Local Government & Community Safety*