

## **Communities and Local Government Committee: Fourth Report The future audit and inspection of local authorities and performance management issues**

To all APSE main contacts in England, Wales, Scotland and Northern Ireland

### **Key issues;**

- The Coalition Government announced the abolition of the Audit Commission as one of the earliest announcements of its Administration
- It also announced that it would no longer be collecting National Indicators and that national reporting of performance targets would general cease.
- As a result of these announcements a DCLG Committee opened an inquiry, to which APSE gave both written and oral evidence, into the future of audit and inspection within local authorities
- This briefing summarises the findings of that committee and their

### **1. Introduction**

Prior to the General Election in 2010 the Conservatives had made several policy pledges towards a less centralist approach to performance monitoring and measurement, in particular the expansion, as they saw it of central interference into local matters. The Communities Secretary, Rt Hon Eric Pickles MP also pledged to provide more 'open local government' and that this could be best provided through 'armchair auditors', local people with knowledge about local services, holding local politicians to account.

These policy pledges in opposition were followed by a rather rapid series of announcements that removed the requirements to report numerous National Indicators up to central government. Alongside this came further announcements that

the Audit Commission should also be abolished. Government made clear its intentions that the audit of local authorities was something that could be carried out by a myriad of suppliers and that it ought not to be a role for central government. The DCLG committee in its deliberations took evidence from a range of sources and has now reported upon its finding.

APSE was one such body that submitted evidence to the Committee and the full [APSE evidence to the committee can be accessed through this link](#) or on the APSE website at [www.apse.org.uk](http://www.apse.org.uk) go to membership resources and briefing 11-01.

## **2. Abolition of the Audit Commission**

On the actual decision to abolish the Audit Commission the Committee was critical arguing that the decision appeared to have been taken 'without a clear evidence base'. The Committee acknowledged however that there is a potential opportunity for a valuable reassessment of the arrangements for public audit. The Committee also asserted that the Government had effectively ruled out consideration of the option of retaining a residual function for the Audit Commission, which may have presented an opportunity to prevent the fragmentation of functions, which the committee see as problematic.

The Committee was also critical of the way in which the abolition of the Audit Commission has been handled, particularly as they saw this as potentially jeopardising the smooth transfer of audit practice to the private sector. The Committee recommended that the Government should therefore introduce a wide-ranging review of public sector audit, with a view to ensuring that this fits into the wider accountability for the expenditure of public money.

Whilst the abolition of the Audit Commission was trailed as a means to save public money the Committee has asked DCLG to 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, the tasks transferred to other bodies and how these compare with costs under the existing system.

The Government's departure from previous audit practice (that public bodies should not appoint their own auditors) creates a need to provide adequate legal safeguards

and assist local government in establishing local audit committees that are, and are seen to be, capable and independent. Future legislation should, argues the Committee, provide clear and uncontestable protections for assuring the independence of audit committees and auditors. The Committee also emphasised that 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.

Although the Government has proposed that arrangements for public interest reporting continue with additional safeguards the Committee believes that the abolition of the Audit Commission, as overseer and guarantor of public interest reporting, represents a fundamental change to this aspect of local auditor appointments. Government should, the Committee argues, therefore introduce new safeguards for public interest reporting, including 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. There should also be monitoring of 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.

### **3. Scope of audit and value for money considerations**

Current public sector policy is emphasising the need to demonstrate value for money (VfM) and this is reflected in the recent 'open public services' white paper ([see APSE briefing 11-36](#)). The Committee stated that whilst the nature and extent of value for money work (prescribed in the code of audit practice is contentious) they favoured 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 Committee also suggested that the auditor should be required to review and provide reasonable assurance on the annual report. This, they argued would be a more limited but realistic requirement than requiring auditors to judge whether or not a council was delivering VfM. Additional VfM 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.

Related closely to APSE's own submission the committee also highlighted the need for the results of audit to be communicated to councillors and the public in ways that are *'more meaningful than currently'*. APSE has argued that whilst public sector audit should be proportionate and risk based (providing public protection) it should also allow local councils to report upon local priorities and demonstrate VfM in a meaningful way. Many of these themes are recommendations within the Select Committee report and in particular the Select Committee suggests that the code of audit practice should reflect these principles.

At a broader VfM level the Select Committee thought that it would be quite wrong for local government to be excluded from VfM assessments. In acknowledging the previous work of the Audit Commission 'Value for Money' studies it nevertheless felt that the volume of the reports did not justify the expense. It was recommended that the National Audit Office should ensure that local government services and expenditure are given due weight in its studies programme. In addition to the NAO the Committee said that it would welcome reports by a diverse range of organisations, including those from outside government, and recommended 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.

#### **4. A driver of improvement?**

In respect of the wider role of audit and inspection the Committee accepted that previous "command and control" systems, whereby Ministers set objectives and targets that local government then reports on or is judged upon, through inspection, has an appealing logic but is highly controversial with uncertain results.

The committee suggested a 'rigorous, dispassionate review of public sector performance management regimes, including targets, indicators, inspection methods and their alternatives' is long overdue.

The LGA proposed sector-led performance management but the committee acknowledged that this was limited because they could not identify poorly performing councils and many could choose not to participate.

The committee did however explore in some detail the concept of **Performance indicators and public reporting** and acknowledged that it now seemed inevitable that there will be a lack of '**comprehensive, consistent data on which authorities can be compared**'. They acknowledged that there were calls to reinstate some limited form of national indicators to allow comparison between councils.

The Committee stated that, for now at least, rather than a return to national indicators there should be comprehensive local reporting against local objectives with maximum transparency. Nevertheless the need for a broader perspective will remain and as such they went on to recommend that the need for, and adequacy of, comparative performance data should be reviewed two years from now, once the new arrangements have bedded in.

The Government has clearly emphasised that local government should place more information in the public domain but it will be for local government to decide which data and in what format. When questions about this matter were raised the Secretary of State for Communities highlighted existing bodies that produce robust local performance data, and referenced APSE in his evidence of sources of localised performance data.

The Committee also shared the concerns of some of its witnesses who were concerned that, without a standardised and mandatory system, the public would not be able to access comprehensive data, place them in context or compare them with other councils. The committee specifically referenced APSE's suggestions of a 'dashboard' of five or so local reported performance indicators (PIs) but in the context of APSE's much more detailed submission also referenced the concerns of APSE member authorities and our membership survey which showed concerns that simplification of performance information could mislead the public and would be misused by the media.

The Committee accepted, and again reflecting the evidence of APSE, that a key part of the change will be:

- Putting information into the public domain in an accessible and readily comparable format
- Allowing people to have access to the information they need to judge the performance of their local service providers, and hold them to account.

- National government should still have a role to play in aggregating data of national importance, or to allow accountability to Parliament, but it is for local authorities to provide local residents with the data they need.

Whilst some bodies to the Committee proposed their own systems of comparative data with a focus on outcomes it is unclear how these would ensure that data is robust and to enable analysis on a fair basis. APSE's own performance networks data allows for comparisons, for example by authorities or services within authorities of a similar type or with similar characteristics, using a process of defining services by 'family groups'. This process was itself audited and reported upon by INLOGOV (Institute of Local Government Studies) and also the DCMS (Department for Culture, Media and Sport) and was found to be systematic and robust in providing fair and transparent comparisons. Newer, less developed processes are highly unlikely to meet these demands. APSE's performance networks services is the largest voluntary data benchmarking service in the UK and has been in existence for the last 14 years and is now into its thirteenth year of data collection. It is unlikely newer systems would have sufficient credibility.

### **5. Intervention in poorly performing local authorities**

The Committee acknowledged that some councils or services will fail and that it should be recognised that intervention by central government will occasionally be necessary. The grounds for intervention should however be well regulated and based on clear criteria. The Committee therefore reiterated its recommendations in its report on Localism, that Government needs to make clear the grounds on which intervention in local services will be deemed necessary. They went on to say that '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.

### **6. APSE comment**

Many of the findings of the Committee will be welcomed by local authorities, balancing its recommendations with both criticisms of the approach taken, in the rapid abolition of the Audit Commission, with practical recommendations to rebalance the role of audit and inspection.

It is clear that regardless of the Committee recommendations Government is determined to ensure a much more open process in respect of local authority data. APSE has already worked with member local authorities to provide enhanced reporting of performance networks data to inform locally elected members of how services are performing, compared to services in similar types of councils. Performance data can however be misleading. It is unlikely, for example, that a council would have only one other council by which to compare itself. It is more likely that a fair system of data comparison would look at different comparators for different services. Using established performance data such as [APSE performance networks data](#), should allow those councils who are currently using performance networks to demonstrate:-

- Value for money considerations in using the data to compare with similar authority types
- Explore both cost and quality performance issues
- Report data in meaningful ways to both locally elected members and the public
- Use data to support audit and inspections arrangements
- Use the data to support service improvement through process benchmarking and sharing best practice arrangements.

In supporting members with the implementation of new audit and inspection arrangements APSE would welcome the further views of its members on how best data can be presented and supplied. We will continue to press the case that local authorities should have the flexibility to report upon and set local priorities to, and with, their local electorate and remain accountable for their own performance.

Please email comments to Mo Baines on [mbaines@apse.org.uk](mailto:mbaines@apse.org.uk) and for further information on APSE performance networks please email Debbie Johns [djohns@apse.org.uk](mailto:djohns@apse.org.uk)

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