

To: Secretary of State

From:
Democracy Division

A

Tel:

Date: 28 July 2010

B

Copies: Permanent Secretary
Andrew Campbell
Paul Rowsell
Jane Todorovic
Special Advisors

.....
Susanna McGibbon
Pamela Conlon
Jane Houghton

Future of local audit arrangements

1. This minute, agreed with Paul Rowsell, provides an update on decentralising local audit arrangements following discussions with affected departments and the NAO and invites you write today to Home Affairs colleagues seeking clearance by 10 August for announcing broad plans.

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..... We have been discussing with officials in affected departments, as well as the National Audit Office, the future approach.

3. In summary, those discussions indicate broad support for decentralising audit.
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4. We have also opened discussions, facilitated by HMT, with the National Audit Office who are very supportive of the proposals. They are undertaking due diligence on the practical implications and requirements for providing reasonable assurance to Parliament through oversight and supervision of public funds.
..... We will continue to liaise with NAO officials on the detail. The purpose of that meeting will be to secure NAO commitment to developing the approach.

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5. All this suggests that there is no resistance to the proposals and you are now in a good position to secure clearance for announcing broad plans for decentralising audit of local government and health during August.
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..... The enclosed Annex B to the letter sets out the policy story line, reflecting those discussions, and from which we will draw the narrative for the announcement.

6. The policy storyline sets a clear direction of travel without commitment to a specific approach. This is important both to provide assurance to other departments on the need to develop detailed plans and to avoid restricting any options, particularly with regard to the future of the audit practice. We will want to ensure the announcement does not undermine the credibility of the Audit Commission and its staff as this may destroy any commercial value of the practice and make the transition to new arrangements significantly harder. As a result, we are recommending a relatively low key announcement is planned to enable wider engagement and stimulate market interest.

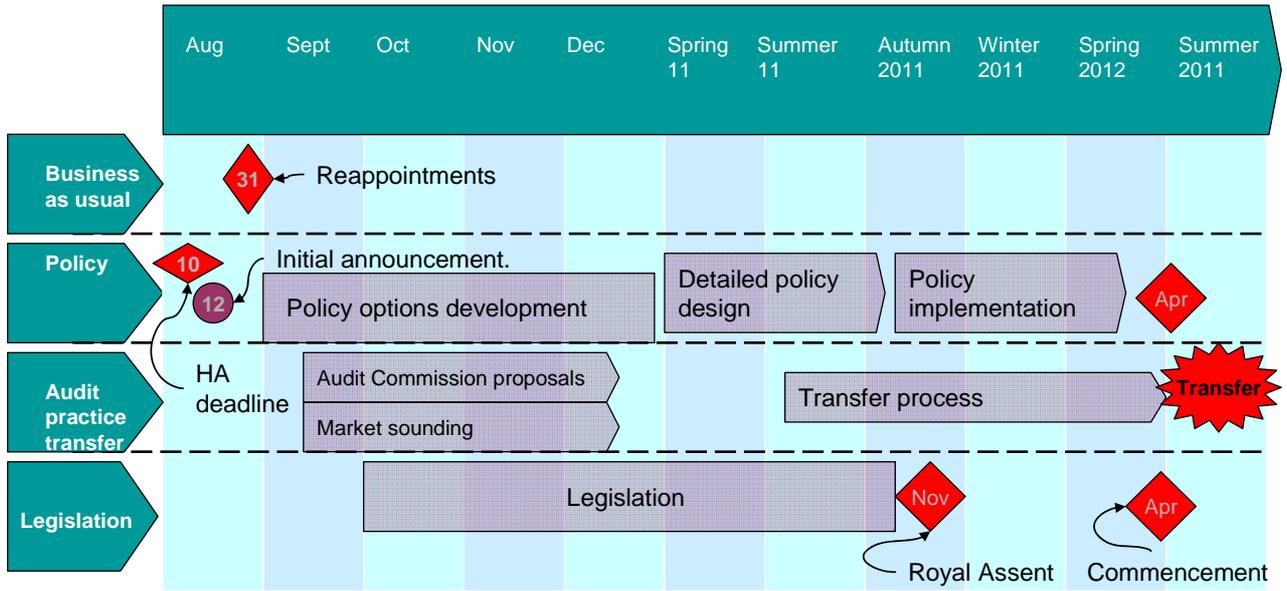
7. We would suggest that, subject to the outcome of HA clearance
....., your office arrange for you to speak to the Chairman and Chief Executive later that day and announce the proposals shortly after. An indicative timeline for subsequent stages is at **C**.

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..... **H**

DOCUMENT 3

Indicative timeline



DOCUMENT 4

To:	Secretary of State	From:
		
		Location:	3/J1
			Eland House
		Tel:
		Date:	10 August 2010
Copies:	Irene Lucas	
	Andrew Campbell	
	Jane Todorovic		Jane Houghton
	Paul Rowsell	
	Julie Carney		Special Advisers
		

A

Future of local audit arrangements

1. This minute updates you on preparations for the announcement on the Audit Commission's future. It has been agreed with Paul Rowsell.

2. At Annex A is a proposed timeline for events for the rest of this week. Particular issues are:

- It shows HA clearance by tomorrow – we and your office are continuing to press Departments – we will update you tomorrow.
- Do you want to speak to Dame Margaret Eaton on the Thursday before the announcement? We recommend this. If you do, we recommend that Paul Rowsell speaks to John Ransford, Chief Executive of the Local Government Association.
- You are considering whether to speak to Lord Heseltine.
- When speaking to the Audit Commission's Chair what line do you want to take on appointments/reappointments (see my separate submission of 30 July)?
- Are you content for officials to inform the Audit Inspection Unit (the statutory regulator for the audit profession). Both we and BIS officials recommend this.

B

3. Annex B contains speaking bull points which you may wish to use for your interview with the Daily Telegraph on Thursday.

4. Annex C is the latest draft of the press notice. This reflects helpful discussions officials have had with HM Treasury, the Shareholder Executive, the National Audit Office, BIS, and with the Department of Health. The key paragraph is what we say about the transfer of the Commission's in-house audit practice to the private sector given the potential market sensitivity of this. The key sentences are 'the Audit Commission's in-house audit practice, which is the fifth largest audit practice in the

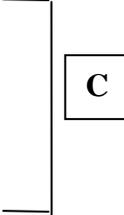
DOCUMENT 4

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.'

5. Annex D contains drafts of letters for you to send to the Opposition spokesman the Rt. Hon. John Denham MP, and the Chair of the Communities and Local Government Select Committee Mr Peter Betts MP.

6. We will be circulating later in the week a full Q&A for press handling.

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3/J1
Eland House
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DOCUMENT 7

To: Secretary of State
From: Paul Rowsell
Deputy Director, Local
Democracy
Location: 3/J1 Eland House
Tel:
Date: 18 June 2010
Copies: Irene Lucas
Andrew Campbell

FUTURE OF THE AUDIT COMMISSION

1. The Audit Commission is a major Arms Length Body (ALB), with a largely fee funded budget of over £200m p.a. and around 2000 staff, auditing and inspecting some 11,000 local public bodies. We understand you are considering its abolition. The attached paper sets out our initial advice on achieving this policy outcome.
2. In summary we are proposing the following for the four principal operations of the Commission:

- **audit** – the Commission’s audit practice (currently some 1400 staff, generating fee income of some £135m p.a. from auditing over 950 principal bodies and some 2450 smaller bodies) will be shut down or privatised. Local authorities, health trusts, fire & rescue authorities, and police bodies will appoint their own auditors (at present the Commission does this) from a market consisting of existing accountancy firms and any new enterprises resulting from any privatisation of the Commission’s audit practice;
- **assessment** - the abolition of CAA has already been announced, saving in a full year some 300 staff and £23m p.a.;
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- **data matching** –
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- **research** -
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The corporate centre of the Commission would be abolished, saving staff and Board costs approaching £1m p.a.

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3. The merits of doing this are principally threefold. First it is a significant decentralisation creating genuine local choice to be exercised by councils and other bodies about their auditors. Secondly, it has the potential to lower audit costs, (not least as the Commission's audit practice with its narrow range of clients cannot achieve the same efficiencies from managing peaks and troughs of work as a firm with a range of clients with different accounting years). Thirdly, significant savings can be expected from the abolition of the Commission's corporate core and centralised functions, together with the potential for receipts from the privatisation/break up of the Commission's audit practice. The principal risks will be around managing the transition away from the Commission's audit practice, whether through privatisation or some other approach, in a way that generates maximum savings/receipts and lowest future audit costs.

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DOCUMENT 12

To: Secretary of State
From: Paul Rowsell
Deputy Director, Local
Democracy
Location: 3/J1 Eland House
Tel:
Date: 8 July 2010
Copies: See list at end

Audit Commission

Summary

1.
..... This submission seeks your agreement to the attached outline narrative for the announcement and the proposed approach to securing collective agreement. It also seeks your agreement to wider engagement within the department on the proposal.

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Timing

2. Routine. However, early agreement will enable us to prepare for the Home Affairs Committee on 21 July.

Recommendation

3. We are seeking your comments on the outline narrative for the announcement at **A**, which frames the decision in terms of increasing accountability at the local authority level, We will work up an agreed revised narrative with advisors by 16 July to form the basis of a paper for the Home Affairs Committee.

B

4. We also ask that you agree to handle the approach to securing collective agreement at Home Affairs Committee, through the following steps:

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- Andrew Campbell undertakes high level briefing with peers with an interest in the Commission

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- Following policy agreement, you immediately meet with the Audit Commission (Michael O'Higgins and Eugene Sullivan) to inform them of the intention to abolish the Commission, providing them with an opportunity to notify staff of the decision; and

-] you make a statement [in the House of Commons] with appropriate media handling announcing the policy.

F

5. To date we have restricted engagement to a limited number of officials but now need your agreement to widen the engagement and start to establish a project team. Are you content that we should now establish a core project team and engage the relevant policy leads in CLG at Deputy Director level, as set out at **B**.

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DOCUMENT 12

Considerations

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Narrative

8. The attached narrative at A, which has been discussed with advisors, positions the announcement as an extension of measures in the Coalition Agreement and Control Shift, with reference to referendums, participatory budgeting, data transparency etc. It goes on to argue that, in a post-bureaucratic age, independent audit should:

- 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, supported by the three interconnected principals of decentralisation, accountability and transparency.
- Decentralisation because on the whole things are better done when close to the people directly affected, and audits should be relevant to citizens and communities so that they can judge whether those serving their needs are doing so effectively.
- Accountability is increased because bodies are more likely to serve those whom they are in business to serve if they are accountable through the audit to them, rather than some proxy in Whitehall or Westminster (i.e through the Audit Commission).
- Transparency because of the immense power of visible information and data, validated by audit, so that decision makers can not hide from their decisions and as a result are more likely to deliver better services.

9. It is in this new regime that the role of a central Commission to impose auditors and draw together national studies that look primarily to Whitehall becomes redundant.

Handling

10. While the proposal is in line with the Coalition Agreement and Control Shift, it is a new decision and has the potential to be controversial, coming as it does ahead of clarity on the future of inspection (and audit). The Commission has had an assumed role within a streamlined inspection and regulation regime, together with other inspectorates, which we will need to address in building consensus in Whitehall, with the Commission and with audited bodies.

11. Due to the potential risks or disclosure before collective agreement, we have operated on a need to know basis within the department and our handling approach maintains a tight timetable for briefing colleagues before seeking agreement. It also recognises that once agreed we will need to move quickly to inform the Commission so that we lead the debate and ensure that they support the approach – which for many staff has the significant potential positives.

12. Should the Home Affairs Committee agree to the abolition of the Audit Commission, we are recommending an immediate meeting with the Chairman and Chief Executive of the Commission followed by an announcement shortly afterwards.
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13. Following the announcement, over the summer officials commence discussions with the main partners within Government, the audited bodies and the auditor on the future approach, establishing a project group to develop the programme so that a new regime is in place for April 2012.

Project team and engagement

DOCUMENT 12

- 14. To date we have restricted engagement to a limited number of officials on a need to know basis. As we start preparing for the announcement and collective agreement we will need to broaden the circle of those engaged.
- 15. Given the sensitivities we are proposing to engage the Deputy Director leads with the department who have internal responsibility for functions delivered by the Audit Commission – Julie Carney / fire / housing, together with relevant Private Offices.
- 16. We will also need to start to develop the project team that will oversee both the announcement and the subsequent implementation and development of future options. I will be the lead Deputy Director with Andrew Campbell being the Board level champion. This will be a major project which we anticipate will generate significant media interest, partner engagement and require complex negotiations.
- 17. Therefore we are proposing that working to me will be a project team led by, who will have day to day responsibility for taking the project forward, which should consist of up to three Grade 6/7's, three HEO/EO's. The current Audit Commission sponsorship team, led by, will continue to manage the business as usual activities. We have some resource potentially available from within the Directorate and in business areas which are ending but may also need to secure resource from the programme team.
- 18. Are you content that we now begin to redeploy staff on this basis to support the project going forward?

J

P ROWSELL

Copyees:

**[PS/Other Ministers]
Andrew Campbell**

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**Permanent Secretary
Jane Todorovic**

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Special Advisers

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