

DOCUMENT 1

From: Andrew Kean
Sent: Friday, August 13, 2010 5:02 PM
To:
Cc: Paul Rowsell;
Subject: Audit Commission - Union Handling

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Apologies for doing this by email - I called but missed you and am about to head off for the day, so this is probably best regarded as a heads up for a (probably short) conversation on Monday.

Part of my remit is to lead on relations with the Departmental Trade Union reps. Against that backdrop, I just wanted to make sure I was clear about how trade union notification, etc, was being handled for what has just leaked out on the Audit Commission, and also how best to handle the approach I expect to receive from the DTUS reps about some sort of meeting on this.

Andrew

DOCUMENT 2

Subject: FW: Audit Commission audit practice

Importance: High

Categories: **A**

Paul,

As you know, the Secretary of State has indicated that he would like to redefine the role of the Audit Commission so that its audit practice is no longer 'the fifth largest audit firm in the country'.

I met with Julie Carney and and had a useful discussion about **B**
how this might be taken forward.

As you will know, at present the Audit Commission is responsible for appointing auditors for local authorities. This can be 'an officer of the Commission' (in effect the Audit Commission's own audit practice, 'an individual who is not an officer of the Commission' or 'a firm of individuals who are not officers of the Commission'. At present 70% of audits in local authorities are undertaken by the Audit Commission's audit practice. Prior to the establishment of the Audit Commission in 1983 my understanding is that the ratio of private firms to district auditors was lower, with private firms having less than a 30% share. I understand that the intention was to move towards a 50/50 split of private firms and Audit Commission audit practice.

The challenge will be to reform the Audit Commission's audit practice while maintaining independence and value for money.

The proposal is this:

- The Audit Commission's audit practice will be privatised.

This will have staff cost implications. In addition the Government will, effectively, be creating the fifth largest audit firm in the country. The benefit is that this new firm would not be restricted to auditing public bodies.

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DOCUMENT 2

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Grateful for any thoughts or comments.

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Department for Communities and Local Government
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DOCUMENT 10

-----Original Message-----

From:
Sent: Monday, July 19, 2010 3:13 PM
To:
Cc: Bailey, Helen; Andrew Campbell; Twiddy, Edward; Paul Rowsell
Subject: Audit Commission

A

Hi

We spoke, and I said I would send through some more detailed comments. Please take these as hopefully helpful first comments from me, rather than a full and final set of views from across HMT. We will pull these together asap.

The proposed announcement focuses on the audit functions of the Commission, but we also have a strong interest in the assessment / inspection side of things, and more broadly in how we retain a focus on value for money for departmental spending, including through local government. Because the announcement proposes to abolish the Commission, it is appropriate to look at these wider issues too. I've numbered my comments for ease of reference.

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B

2. The letter quotes £70m worth of savings. Can we see this broken down please?

3. On audit functions, in principle, farming more audit work out to the private sector - if it reduces public sector costs - seems to have its attractions.

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- The Commission has a key role in relation to health, police, fire bodies etc.

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DOCUMENT 10

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You saw the new regime as starting in April 2012. For the 11-12 year, I'm a little unclear on the arrangements you envisage operating, particularly the assurance role

4. Corporate failure. We discussed this briefly. The Commission has specific powers to refer an authority to the SofS for intervention. It is key that we have a clear story on this.
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F

5. The role of the NAO. We definitely need to talk to them as plans for a new set of local arrangements emerge. But these proposals do open up questions about the role of NAO viz LAs.
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G

I'll get back to you with further views, but any of yours in the meantime would be great, especially on the earlier points including timing.

Thanks

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Local Government & Regions Team | Public Services & Growth
HM Treasury, 1/29, 1 Horse Guards Road, London, SW1A 2HQ

H

T:

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If you have received this email and it was not intended for you, please let us know, and then delete it. Please treat our information in confidence, as you would expect us to treat yours.

DOCUMENT 10

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From:
Sent: Tuesday, June 29, 2010 1:59 PM
To:; Paul Rowsell
Cc: Sheridan Westlake;
Subject: RE: RESTRICTED: Audit Commission

.....,

You asked for some lines on what we would be doing to fill the perceived accountability gap left by the abolition of the Commission.

Firstly, we need to maintain clarity about what it is that we are, and are not, proposing and you are quite right to keep the focus on the QUANGO.

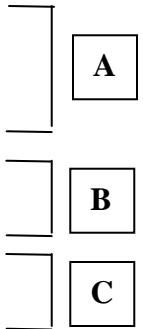
We are not proposing a weakening of the audit regime. The audit of public bodies will still happen and it will conform to agreed standards set down by national and international accountancy rules, the sector and the Audit Codes – which Government will continue to update and which will continue to be scrutinised and approved by parliament. In short – audit will continue; we are scaling back unnecessary inspection.

Town hall transparency means that local authorities will be publishing spending, tenders and contracts online over £500, opening the books on the town hall salaries and councillor allowances, and publishing information on the quality and quantity of frontline services in an open and standardised format. Instead of the Audit Commission using the data to push selective reports to the public, the public will be able to pull whatever data they wish to compare public bodies. Public bodies will be more accountable than before.

By abolishing the QUANGO that appoints auditors to local authorities, we will give those authorities the freedom to choose their own auditor rather than having one chosen for them. This ensures that professional auditors continue to check the accounts of local authorities, but in a competitive environment which will drive down the inflated audit fees that councils have suffered in recent years.

As outlined in *Control Shift*, we will be strengthening the powers of the Local Government Ombudsman, increasing citizens' rights of redress in face of individual cases of maladministration or poor service.

Although a final decision has yet to be taken, the Commission's audit practice will have some sort of future and their experience and talent will not be lost. The audit practice could either be sold off as a going concern, or the staff will join other teams of auditors, spreading their skills and experience into the sector. 30% of the audits of public bodies are already undertaken by the private sector.



Local Governance
Department for Communities and Local Government

D

From:
Sent: Tuesday, June 29, 2010 10:13 AM
To: Paul Rowsell;
Cc: Sheridan Westlake;
Subject: RESTRICTED: Audit Commission
Importance: High

E

Paul,..... ,

F

..... They need from us by **cop today** what we would be doing to fill the perceived accountability gap left by the abolition of the Commission.

G

<< Message: Audit Commission >>

I think we would say this is likely to take two forms:

- the proposal is to remove an unnecessary national QUANGO, Local Authorities will still be audited in a transparent manner just they will now be able to choose who by with a bit of a reworking of email (attached); and,
- pointing to far greater accountability to local people through new powers for neighbourhoods and individuals to hold LAs to account. I suggest we point to powers in the **localism bill** and the **transparency** agenda (e.g. <http://armchairauditor.co.uk/about>)

I'd be grateful for suggestions at your earliest convenience.

H

Many thanks,

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Rt. Hon. Eric Pickles MP
Secretary of State for Communities and Local Government

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Please note: all e-mails and attachments sent by a Private Secretary to another official on behalf of a Minister relating to a decision, request or comment by a Minister, or a note of a Ministerial meeting, must be filed appropriately by the recipient. Ministerial Group does not keep official records of such e-mails or attachments. Similarly, e-mails and associated attachments sent to the PSEricPickles account by officials are not retained by Private Office long term and should therefore be recorded as most appropriate by the sender. Thank you.

DOCUMENT 13

-----Original Message-----

From: Paul Rowsell
Sent: Friday, July 23, 2010 1:34 PM
To: Andrew Campbell
Cc:;
Subject: RE: Pensions

[] [A]

Andrew

No. The commission have their own Audit Commission Pension Scheme. It is a stand-alone defined benefit scheme. At 31 March 2009 the AC's accounts showed net pension liabilities of £3.466m.

We have now received the Commission's Report and Accounts for 2009-2010 which are due to be laid before Parliament on 26 July (you will have seen minute about laying to the SoS of yesterday).

[] [B]

The notes to these accounts show that the net pension liability has risen to £106.421m, a result of falling corporate bond yields which have reduced the discount rate, hence increasing the net present value of the liabilities, so that whilst the fair values of scheme assets have increased from £474m at March 2009 to £607m at March 2010, the net present value of liabilities has increased from £477m to £713m.

Any move of the in-house practice to the private sector will depend crucially on the approach we adopt, the effect of the current redundancies on the fund, future discount rates etc. The current accounts also quote a solvency basis method of valuing the pension liabilities (essentially the cost of buying out the benefits at the 31 March 2010) with a suitable insurer at £357m.

What all this shows is that this is an area of considerable risk, potentially affecting the net proceeds from the sale/buy-out/mutualisation etc; the volatility of pension valuations; the need to engage with the Commission so as to gain a clear understanding of potential liabilities etc for different approaches, and hence for the early headline announcement of the direction of travel etc.

More generally, we had a very helpful meeting with HMT (Paula Diggle) and NAO(.....); they see the potential for a cost effective accountability and audit regime along the lines we are considering. will be circulating later today a summary of all our discussions with OGDs etc and a set of slides for our discussions with Irene on Monday.

[] [C]
[] [D]

Paul

-----Original Message-----

From: Andrew Campbell
Sent: Friday, July 23, 2010 8:24 AM
To: Paul Rowsell
Subject: Pensions

DOCUMENT 13

Paul

Do you know if AC staff are members of the local govt pension scheme?

DOCUMENT 15

From:
Sent: Tuesday, August 17, 2010 10:57 AM
To: Sheridan Westlake; Paul Rowsell
Cc: Jane Houghton;; PSEricPickles; PSBobNeill
Subject: RE: Letters to Audit Commission directors on non-reappointments
Importance: High

Hi - we've drafted a short pn on this based on the letters and previous press notice.
Grateful for feedback/fact check before it goes up to Bob Neill.
Thanks

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Press office

<< File: Changes to Audit Commission Board announced.doc >>

From: Sheridan Westlake
Sent: Monday, August 16, 2010 4:19 PM
To: PSEricPickles; PSBobNeill; Jane Houghton;
Subject: FW: Letters to Audit Commission directors on non-reappointments

Hello

I think it would be worth communicating this in a pro-active, responsible manner, to highlight our plans to transform the Audit Commission. Otherwise, this information will leak out in an uncontrolled way.

e.g.

- we thank the five directors for their work to date
- we state our plans to bring in private sector expertise and skills as part of our plans to move the AC to the private sector
- note the selection of the new directors will be by open competition.

Could we work up something to put out tomorrow or Wednesday? BN can be the spokesman.

Many thanks

Sheridan

From:
Sent: Monday, August 16, 2010 1:44 PM
To: Sheridan Westlake
Subject: RE: Letters to Audit Commission directors on non-reappointments

<< Message: Lord Adebawale >> << Message: Bharat Shah >> << Message: Raj Rajagopal >> << Message: Jenny Watson >> << Message: Dame Denise Platt >>

Hi Sheridan,

Please find these attached.

DOCUMENT 15

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DOCUMENT 16

From:
Sent: Tuesday, August 17, 2010 4:50 PM
To: Dawn Eastmead
Cc: Paul Rowsell;;;;
Subject: RE: The Audit Commission and statutory responsibilities

Dawn,

This will be taken forward by the project team currently assembling itself here in Paul's directorate.

..... will set up a meeting for you and and here on the team to discuss taking this forward.

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Local Governance
Department for Communities and Local Government
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From: Dawn Eastmead
Sent: Tuesday, August 17, 2010 2:59 PM
To:
Cc: Paul Rowsell;
Subject: The Audit Commission and statutory responsibilities

.....;

In the wake of last week's announcement I wonder if you could advise me of what conversations the department is having with the Commission on the delivery of their statutory responsibilities during the wind up of its functions. I assume that a time will soon come when the Commission will no longer be able to (or expected to) deliver in some areas?

I am happy to engage with the fire people direct at the Commission on this but didn't want to cut across any conversations you may be having. We will need to put advice to ministers soon to provide reassurance on fire specific issues so an early response would be handy.

Thanks

Dawn

Dawn Eastmead
Deputy Director
Fire and Resilience
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