

PRIME MINISTER

I attach a copy of Mr. King's statement about local government audit in England and Wales.

This did not arouse great interest.  
Arthur Lewis took the opportunity to demand an investigation into allegations "by Lefties" of corruption in the housing department in Newham. Mr. King dealt easily with most of the questions, but was unable to offer a straight answer to the several members who wanted to know exactly what the new quango would cost, and how many public servants it would employ. These included Peter Emery and Dennis Skinner. Denis Howell, for the Opposition, was particularly grudging about the new arrangements, but the House seemed generally content. For the Liberals, Stephen Ross offered a cautious welcome, but asked why the new arrangements could not cover the Water Authorities.

29 July 1981

CONFIDENTIAL

DRAFT STATEMENT

draft of 22.7.81

LOCAL GOVERNMENT AUDIT IN ENGLAND AND WALES

1. With permission, Mr Speaker, I wish to make a statement on local government audit in England and Wales. The Public Accounts Committee made a number of recommendations, including some affecting this subject, in their Report on the Role of the Comptroller and Auditor General. The Government have today published a White Paper setting out their response to the Committee's Report, as a whole. Since we propose early legislation on local government audit it was thought right to make a separate statement to the House on this.
2. The Government entirely endorse the PAC's conclusion that the present arrangements for local authority audit need to be improved and that greater attention needs to be paid to value for money audit. <sup>In addition,</sup> ~~Moreover,~~ we do not believe it is right in principle that a public body should appoint its own auditors. We also wish to see the experience of private sector accountants used in substantially greater measure in local government audit.
3. The PAC recommended that the C & AG should assume responsibility for the District Audit Service. The Government have considered this very carefully, but have concluded that such an arrangement would be fundamentally inconsistent with the constitutional position of local authorities. Parliament's proper interest in monies voted as Exchequer grants to local authorities is best pursued through the accountability to Parliament of the Ministers responsible for the payment of those grants.

4. The Government propose to establish a new statutory body to be responsible for the audit of local authorities in England and Wales. Legislation to this end will be introduced at the earliest opportunity. The body, to be called the Audit Commission, would consist partly of people chosen from local government and partly of people with relevant expertise from industry, commerce and the professions, with an independent chairman. The ~~Chairman~~ and members would be appointed by my rt. hon. Friends the Secretaries of State for the Environment and for Wales.

5. The Commission would appoint auditors to the local authorities, either from District Audit or from the private sector. It would take over from my Department responsibility for the District Audit Service. Discussions with the staff about possible transfer arrangements will start now.

6. The Commission would also subsume the functions of the Advisory Committee on Local Government Audit.

7. The Commission would not be responsible for the audit of water authorities, whose auditors would in future be appointed by the relevant Secretary of State, in line with other publicly owned trading organisations.

8. The Commission would have powers to promote or undertake work in the fields of value for money and efficiency. It would thus cover some of the area of work of the Local Authorities Management Services and Computer Committee, and I intend to discuss this with the local authority Associations.

9. The Commission would be self-financing, primarily from audit fees, as the service is now. Some increase in the present scale of fees would be required to accommodate the increased audit effort.

10. A consultation paper setting out the details of this proposal is being issued today.

11. My rt. hon. Friend also intends to use his existing powers under the Local Government Act 1972 to appoint as additional district auditors members of private accountancy firms. These will undertake the audit of the accounts for 1981-82 of a small number of authorities in England, working under the general supervision of the Chief Inspector of Audit. The authorities will be selected to give a variety of types of authority, geographical locations, expenditure patterns and political control. Their names will be announced in due course. The Government believe that, given the difficulties facing local authorities in a period of declining resources, it will be helpful to have some additional audit effort deployed in this way to illuminate the problems; and that the use of private accountants will bring a valuable diversity of experience into this field.

12. Mr Speaker, local government expenditure in England and Wales will be about £22,000 million this year. The need to secure value for money for such a scale of public expenditure is crucial. The Government wish to secure an audit system for the future which is well equipped to meet this need. We believe that the measures I have announced are the right way to achieve that system.