

CONFIDENTIAL



DEPARTMENT OF THE ENVIRONMENT

2 MARSHAM STREET

LONDON SW1P 3EB

01-212 3434

MINISTER FOR LOCAL GOVERNMENT
AND ENVIRONMENTAL SERVICES

28 July 1981

Dear Nick,

AUDIT COMMISSION: STATEMENT

Further to my letter of 22 July, I now attach the final version of the statement which Mr King will make this afternoon and which Lord Bellwin will repeat in the House of Lords.

Copies go to Mike Pattison at No 10, Murdo Maclean and Michael Pownall.

Yours,

PJC

MAF

P J CASH
Private Secretary

Nick Huxtable Esq

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. In their Report on the Role of the Comptroller and Auditor General the Public Accounts Committee made recommendations on this subject among others. The Government's response to the Committee's Report as a whole is being published today in a White Paper. Since early legislation on local government audit is proposed 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 given to value for money work. In addition, we do not believe it is right in principle that a local authority 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 concluded that the C & AG should assume responsibility for the District Audit Service. The Government have considered this very carefully, but have decided 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 accordingly propose to introduce early legislation to establish a new Audit Commission which would be responsible for the audit of local authorities in England and Wales. Its members would be appointed by my rt. hon. Friends the Secretaries of State for the Environment and for Wales, partly from local government and partly from people with relevant expertise in industry, commerce and the professions, with an independent chairman.

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.
8. The Commission would have powers to promote or undertake work on 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 audit 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 powers under the Local Government Act 1972 to appoint as additional district auditors members of private accountancy firms. We believe that their diverse experience will be helpful to local authorities facing the challenges of a period of declining resources. They 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, and expenditure patterns. Their names will be announced in due course.

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 establish 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.



Mr Lamberton

WM 20/7

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

17 July 1981

in this office
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D.A. Edmonds, Esq.,
Private Secretary
Department of the Environment

R 20/7

Dear David

AUDIT COMMISSION : DRAFT STATEMENT

MAD 20/7
-with request if required

You copied to me your letter of 16 July to Nick Huxtable.

As you know, the Chancellor of the Exchequer is currently seeking the agreement of the Chancellor of the Duchy and the Prime Minister to putting to Cabinet a draft White Paper on the Role of the C & AG, with a view to publication before the Recess. The date we provisionally have in mind is 28 July.

The Chancellor recognises that, other things being equal, your Secretary of State would prefer a longer gap between announcement of the Audit Commission and the Recess. But he thinks it would make a bad impression on the House if the announcement of the Audit Commission and publication of the White Paper cannot be synchronised. If the Audit Commission is announced in isolation, the PAC will be doubly annoyed: by rejection of one of their main recommendations (which was the subject of protracted and difficult debate within the Committee), and by the apparent discourtesy of announcing the Government's conclusion before we are ready to present that conclusion in the context of a considered response to the PAC's Report as a whole.

An incidental advantage of synchronising the two events is that it would then be possible to shorten your Secretary of State's draft announcement a bit, e.g. most of paragraphs 5 and 10 duplicate the draft White Paper.

W

I understand the House is unlikely to rise before 31 July. The Chancellor of the Exchequer would be grateful in these circumstances if your Secretary of State could reconsider his proposal to announce the Audit Commission on 21 July.

/I am



I am copying this letter to Tim Lankester at No.10,
to Nick Huxtable in the Chancellor of the Duchy's Office,
to the Private Secretaries to the Secretary of State for
Wales, the Chief Whip and Sir Robert Armstrong.

Yours ever,
Peter

P.S. JENKINS