

Report to: **Audit and Best Value Scrutiny Committee**

Date: **10 November 2010**

By: **Chief Executive and Deputy Chief Executive and Director of Corporate Resources**

Title of report: **Update on External Audit and Inspection Arrangements**

Purpose of report: **To advise the Committee of proposed changes in the external audit and inspection regime**

RECOMMENDATION: The Committee is recommended to note the report

1. Financial Appraisal

1.1 The Government believes that the disbanding of the Audit Commission will save taxpayers £50m p.a. Whether or not this figure is actually realised, it will not be possible to say exactly what the financial impact on this Authority will be until future arrangements for external audit and inspection are clarified. In the short term, we would expect a saving of c£19,000 (from a total external audit and inspection cost of c £270,000) with the cessation of the Comprehensive Area Assessment (CAA) but it is not clear whether the Audit Commission will still seek to recover any of its non audit related costs, or costs of its abolition from local authorities. We are expecting the Commission to issue a consultation document on fees for external audit work in 2011/12 in the next few weeks.

2. Supporting Information

2.1 The Government announced on 13 August 2010 the disbanding of the Audit Commission, that local authorities would regain the right to choose their own (external) auditors and that a new de-centralised audit regime covering local government, police and health bodies would be established. The Government's intention is for the National Audit Office (NAO) to oversee the audit of local government and health bodies, and for the Audit Commission's own audit practice to be transferred out of the public sector. These proposals will require primary legislation and therefore there is unlikely to be any significant change until after the completion of the audit of the 2011/12 accounts with PKF remaining our appointed auditors and continuing to deliver the Code audit of the accounts, including IFRS (International Financial Reporting Standards) compliance (and dealing with any related complaints and objections from the public), an opinion on value for money arrangements and certification of grant claims. The biennial National Fraud Initiative (NFI) 2010 which is run by the Commission has already commenced – it is not clear whether this will be retained beyond 2011/12 and whether it would transfer to the NAO or one of the national bodies with responsibility for counter fraud work.

2.2 The CLG is currently engaged in discussions with the Audit Commission, the NAO and other stakeholders including the Local Government Association about arrangements for 2012/13 onwards. From our point of view the key elements of any framework would need to include:

- Clear and proportionate specification for accounts audit
- Consistent standards for auditors
- Common approach to accounting / auditing standards
- Continuance of the public reporting role of the appointed auditor
- Transparent auditor appointment process that balances local input with auditor independence
- Collaborative procurement for external audit that delivers value for money, probably through geographical packages
- Nationally co-ordinated approach to counter fraud / data matching based on added value
- Ability to commission work locally beyond the core code accounts audit, for example value for money studies or cross sector reviews
- Agreement with central government departments on a consistent and proportionate approach to all grant certification

3. Performance and inspection

3.1 In addition to its primary function to regulate the audit of local government (and other bodies) in England the Audit Commission has responsibilities for inspection and performance assessment as well as research activities to promote value for money. Work on the CAA ceased earlier this year. Inspection regimes for adult and children's services continue, however, and are likely to for the foreseeable future.

3.2 The Government has placed a new emphasis on local accountability to local people and full details will be published in the localism white paper expected later in the year. The CLG has already signalled that the National Indicator set and Local Area Agreements will be abolished by April 2011. A review is currently underway of all the data, indicators and returns that local government provides to central government, with a view to producing a smaller data set which serves specific government needs by April 2011. Some of the requirements that Government will make on local government for transparent local provided data are already known. We will be expected to publish items of expenditure over £500 and senior officers' salaries for example by January 2011. The Secretary of State is calling for "armchair auditors" to hold local government to account.

3.3 The Local Government Group (LGG), made up of the Local Government Association, Local Government Improvement and Development, Local Government Employers, Local Government Regulation, Local Government Leadership, Local Partnerships have begun consulting on "sector self regulation and improvement". Their consultation document and the County Council's response is set out at Appendix 1. Whilst the County Council support sector led support and acknowledge the need for comparable management metrics for local government by which we and local people can judge performance, we would not wish to see a new, self imposed, nationally prescribed inspection regime replace the CAA. We would welcome sector led assistance with improvement and with the provision of reliable benchmarking data.

4. Impact on assurance

4.1 In the absence of the CAA and any details of a successor regime both members and the public / council taxpayers still have access to a wide range of sources of assurance. In addition to the continuing role of the appointed external auditor and other inspection bodies including CQC and Ofsted, the Council has an established, effective and well regarded governance framework which is set out in its Local Code of Corporate Governance. Compliance with the Code is reported on annually via the Annual Governance Statement (AGS) in line with CIPFA / SOLACE best practice and statutory requirements. The AGS, which is reported to both this Committee and Governance Committee each year, draws on a range of sources of assurance which are shown in appendix 2.

4.2 The Council already has a strong commitment to public reporting for example through the Council Plan (including our Council Promise), our annual accounts and performance information, the publication of committee agenda and decisions and the webcasting of Council meetings. We are also developing our response to the Government's transparency agenda, specifically through arrangements to publish all items of spend over £500 in advance of the 1 January 2011 deadline.

4.3 We will continue to develop and review both our assurance framework and our public reporting in the light of new arrangements for audit and inspection and the transparency agenda, to ensure that they remain fit for purpose and meet the needs of both Members and the public / council taxpayers in an efficient and effective manner.

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Background Documents

Annual Report of the Monitoring Officer and Annual Governance Statement

<http://www.eastsussex.gov.uk/NR/rdonlyres/306ECFB6-4AF9-44F2-B560-E2CF787F461E/24050/Gov8June2010item6AssessmentofCorporateGovernanceFr.pdf>

Local Code of Corporate Governance <http://www.eastsussex.gov.uk/NR/rdonlyres/AE4C0B5D-6261-41A5-A8D0-C31AF4EA7C79/0/LocalCodeofCG.pdf>

ESCC Response to LGG consultation on Sector self-regulation and improvement

Consultation questions

1. Do you agree with the principles on which these proposals are based – in particular that councils have a collective responsibility for the performance of the sector and will collaborate to both give and receive support?

It is important to remember that the drive for sector led improvement was developed as an alternative to CAA, a nationally imposed framework. The national picture has now changed and we agree with the central Government position that local authorities' primary accountability is to local people. We are concerned that the LGG should not be proposing a national system that is predicated on an idealised local authority to which all must conform, but should be providing support to help local authorities to do their business better. The national audit and inspection regimes have not entirely disappeared and the proposed framework needs to take into account these requirements.

We would not agree, therefore, that local authorities have a collective responsibility for the performance of the sector. Localism dictates that people in one area may prioritise differently to another area and vote accordingly. The views of local authorities outside the area, while offering useful advice and support, do not carry a mandate of responsibility to the people inside the area.

The role of the LGG needs to be carefully considered in this proposal; it should not look to take on a role of responsibility for the performance of all councils. It is important for the LGG to retain its independence from central government and focus on representing and supporting all local authorities. It should facilitate improved performance by councils, for example, by promoting better benchmarking. Top sliced improvement funding should be returned to local government and the LGG should trade its improvement services with local government.

2. Will the proposals we set out help strengthen local accountability?

Possibly not as they will draw councils towards a new central accountability rather than towards local accountability. The proposals may make some councils feel compelled to conform with, and then compete within, the new system rather than focus their efforts on local priorities, scrutiny, success and accountability.

3. Do you agree with the key elements of this approach - transparent performance information, self evaluation leading to an annual report and regular peer challenge?

Transparent performance and cost information should be available to the public and that means that current systems need to be improved. Councils need good management information which is comparable with other local authorities to support their decision making and so that they can communicate the local choices they make in ways local people can appreciate. If the LGG can improve the benchmarking of costs and delivery, this would assist councils to improve and would be very welcome.

The development of a self evaluation tool and a model dashboard for councils to use will inevitably begin to focus on an idealised council based on the views of people outside an individual council's area. While there is a need to ensure minimum standards for some services and service users, local people should be the judge of whether or not a council is performing well. We would prefer simply to have data which can be used to make comparisons.

Peer challenge can be a useful source of independent advice and support, so the development of wider and more tailored range of peer reviews would be welcome. The extent and frequency of their use should be left to local discretion and should not be prescribed nationally.

The benefits of being a peer reviewer should be emphasised more strongly as a key way to share best practice and a good way for members and officers to improve their knowledge and skills.

The proposal does not include the role of local scrutiny in self-regulation. We would expect the now well established system of scrutiny to continue to play a key role in future self-regulation, challenge and improvement.

4. How can we best generate the new culture of trust and openness within the sector that this approach requires?

Councils have been through a prolonged period where there have been multiple external bodies, most of them unelected, seeking to direct local policy, telling local councils what to do and how to conduct their business. To develop a culture of trust and openness, each council must be empowered, trusted and encouraged by Government to focus on local accountability rather than compliance with national systems of accountability. The Audit Commission's shift from providing independent advice and support to becoming the enforcer of national policy demonstrated how compliance based systems of central accountability can hinder the development of trust and openness.

5. In terms of an "early warning system".

- **What are the key early warning signals from a political perspective?**

We don't believe the sector should self-regulate as a collective, but that councils should cooperate so all councils increase their opportunity to improve and deliver better value for money. Standard audit arrangements as proposed by Government should provide adequate warning and public reassurance about the appropriate use of public funds by councils.

- **How best is the activity undertaken at a national and sub-national level?**

6. Is there still a need for inspection for adult and child safeguarding, or is a more robust approach to self assessment and peer challenge sufficient?

We agree with an approach based on self-assessment of adult social care services and this is a key tool we use when planning services. The guidance for self-assessment has, however, become too prescribed and too great a burden. The focus for change should be on reducing this prescription and burden while maintaining a strong risk based approach that will provide the reassurance the public and local authorities need. The scale of self-assessment could be reduced considerably by focusing only on risks identified by the council, CQC or financial audit. These could be categorised as historic or known risks, probable future risks, and financial risks.

Local authorities should be accountable to local residents and service users, therefore developing self-assessment should be linked to the emerging transparency agenda to encourage greater local accountability. This together with CQC's continuing role as the independent regulator for health and social care services should provide a good system for regulation and improvement without the need for additional sector based assessment. An optional peer challenge resource could be a useful tool to aid council self-assessment and improvement.

For Children's Safeguarding it would not be credible to have an entirely self-assessed and peer regulated system without external scrutiny. Public confidence in Child Protection requires some independent/external inspection of performance. No government is likely to give this up however "permissive" or "localist" its outlook.

However the current OFSTED Inspection system is expensive, bureaucratic and overly focused on compliance with processes. It is insufficiently focused on quality of practice or supportive of improvement, nor does it involve current practitioners in peer assessment sufficiently.

The current "Unannounced" Inspection system of Duty and Assessment teams has some good features (including the fact that it is unannounced) and has been improved during its first year of operation. However for most authorities a blanket annual inspection is too frequent, and the fact that it focuses only on the "front door" of Child Protection (and not, for example at practice with children subject to Child Protection Plans) is too limiting.

The full "Announced" 10 days Safeguarding Inspection (every 3 years) is far too bureaucratic and demanding, in the wrong way, of local authorities. Authorities have one day to produce over 100 documents and a couple of days to arrange 80 to 100 interviews, meetings and visits. The whole process paralyses a local authority for a month at least. The fact that it looks at all aspects of safeguarding (including LAC, Disability, Children with CP Plans etc) is a strength, but again it lacks the challenge/involvement of current practitioners who are peers.

In order to make the system of inspecting Children's Safeguarding more focused on quality, less bureaucratic and expensive, more involving of peer challenge, better targeted and more focused on improvement, we recommend the following changes:-

- 1) OFSTED to move to a single system of purely Unannounced Inspections incorporating all aspects of Safeguarding (including LAC, Disability, CP Planning, Duty and Assessment etc) lasting 5-7 working days depending on size of authority.
- 2) All inspection teams to include Peer Inspectors/Assessors.
- 3) Inspection outcomes to include a “notice to improve” – identify weaknesses needing to be remedied with timescale for improvement and follow-up inspection to verify.
- 4) Move to a cycle of random inspections on 3 year cycles, plus targeted evidence-based inspection triggers, based on risk.
- 5) Where authorities are assessed to have insufficient capacity to improve, interventions will be peer-led with OFSTED oversight of improvement plans and milestones.

7. Do you agree that, in order to limit the number of outcomes Government expects of councils, the LGA should seek to agree a small number nationally with government, following consultation with the sector?

This runs counter to localism; it could oversimplify and limit the range of outcomes that local people may wish to choose for themselves and their area. Central Government is of course a key delivery partner and we want to work with Government in our area and in partnerships at a wider sub national level to deliver good local outcomes.

Rather than agreeing outcomes with Government there needs to be set in place a rationalised set of data that measures the things local people value both as tax payers and service users. These data sets should allow local authorities to assess the value for money they deliver to local people and vice versa. The data needs to be simply referenced, easily accessible and overtime provide a consistent source of information about the outcomes delivered by local authorities so they can be judged on the results they achieve against local needs and priorities. Government departments have already begun to move in this direction by rationalising the data they require local authorities to report; this needs to continue with the involvement of local authorities and consultation on a complete core data set.

Sector self-regulation and improvement



Consultation document

With the abolition of the Comprehensive Area Assessment and the Audit Commission, the Local Government Group has set out its proposals for a system of self improvement for councils.

This consultation paper invites your views about the overall approach and its key components.

Please respond to Councillor David Parsons CBE, Chairman, Local Government Group Improvement Programme Board by writing to him at:

Local Government House
Smith Square
London SW1P 3HZ

or via email:
sector.improvement@local.gov.uk

by Monday 1 November 2010.

Sector self-regulation and improvement

Background

The new Coalition Government appears committed to a radical new approach to the assessment of local public services. As it dismantles elements of the current framework there is a real opportunity for the sector to influence the shape of the new arrangements from April 2011. This paper sets out proposals for a sector-owned approach, on which the Local Government Group (LG Group) is consulting councils.

Building on councils' responses to our earlier 'Freedom to Lead' campaign, this consultation paper proposes a new approach that puts assessment and improvement in the hands of councils, individually and collectively. It is based on the following principles.

- Councils are responsible for their own performance and for leading the delivery of improved outcomes for local people in their area.
- Councils are accountable to their local communities. Stronger accountability through greater transparency helps local people drive further improvement.
- Councils have collective responsibility for the performance of the sector and to collaborate through sharing best practice and actively encouraging peer support and benchmarking.
- The role of the LG Group is to support councils, for example, by:
 - developing the necessary tools eg self evaluation, peer challenge, benchmarking
 - working with councils to develop ways of managing the risk of underperformance - spotting things before they go wrong
 - ensuring tools are available/developed by the market to assist localities with change programmes such as developing place based budgets, improving productivity and promoting civil society.
- As a result of these arrangements further reductions in the burden of inspection and data reporting can be made – enabling cost savings for councils and Government.
- Working with partners locally and encouraging streamlined funding arrangements nationally so that tools and services are available that support local agencies to improve places and service quality in a more joined up way.

Consultation questions

1. Do you agree with the principles on which these proposals are based – in particular that councils have a collective responsibility for the performance of the sector and will collaborate to both give and receive support?

2. Will the proposals we set out help strengthen local accountability?

This approach provides the ability to adapt arrangements according to local circumstances and

for collaboration as a matter of local choice. The four key elements of our proposals are described, below.

1. Driving improvement

Councils' primary accountability is to the people and communities they serve. Councils need to provide local people with the information and tools they need to hold them to account and drive further improvement locally. In a sector owned approach councils also have a wider responsibility to other councils and acting collectively, through the LG Group, to support one another. This section sets out the key elements of a sector owned approach and LG Group support.

- Strengthening local accountability by councils making on-going performance information publicly available, in a meaningful way and in a format that local people can understand and use. In addition, we expect that councils will continue to encourage feedback and participation through a range of channels from social media to co-producing services and use local data such as satisfaction surveys, complaints, comments and compliments from users and the public.

The LG Group will develop a benchmarking tool for councils to use providing comparability on unit costs, productivity and outcomes.

- Providing an annual report to local people about the quality of life of the area and performance (including services to vulnerable adults and children). If the self assessment identifies areas of weakness in the council or partnership then local politicians will wish to consider how to respond and report on their proposed action. Options could include seeking sector support or peer review, or inviting an external inspection.

The LG Group will develop a revised self evaluation tool and a model Dashboard of perception, performance and unit cost data for councils to consider using.

- Robust peer challenge on a regular cycle including inviting inspectors and possibly local people to be part of the team, according to local preference. It would be up to each council to determine the frequency and areas to be covered, but this would usually be at least every three years.

Peer challenge and support will form a major component of the new approach. The LG Group's offer is being developed so that a wider and also more tailored range of peer reviews and short diagnostic peer challenges are available from a wider range of peers. Support to elected councillors through Member peers is at the heart of our peer offer, along with widening our peer banks to include additional representation from health, police, business and the voluntary sector.

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- Within this new sector owned approach it is expected that councils will contribute to improvement across local government (and public services more generally) by providing councillor and officer peers and other support to authorities and sharing knowledge and learning through a variety of routes, including communities of practice.

The LG Group will develop ever more effective means of sharing experience and transmitting learning across local government and other public bodies such as through the forthcoming Knowledge Hub.

Consultation questions

3. Do you agree with the key elements of this approach - transparent performance information, self evaluation leading to an annual report and regular peer challenge?

4. How can we best generate the new culture of trust and openness within the sector that this approach requires?

2. Providing early warning of the risk of failure

The focus of monitoring and assessment activity must change. In future the challenge will be to manage the risk of falling or under performance.

A key element therefore of this proposed new sector owned approach is the commitment to identifying councils facing performance challenges at an earlier stage so that support can be provided and service failure avoided. This will be challenging and complex to get right, but building on our earlier “Setting the Pace” consultation and the feedback from councils we envisage it involving the following key elements.

- The LG Group will, working with councils, political party groups, professional groups and Inspectorates, develop agreed “early warning signals” and arrangements to share intelligence at an early stage.
- Where published performance information, benchmarking data and other intelligence about performance gives rise to “early warning signals” indicating potential performance challenges then sector support will be offered from the most appropriate level – whether sub nationally or nationally.
- The LG Group will maintain close working relationships with inspection bodies and government departments to discuss service risks. Where performance risks are identified by councils or through sector challenge, government and inspection bodies will accept the principle that sector support is preferable to inspection or intervention.
- In exceptional cases where there is a likelihood of failure and sector support is not welcome, then councils will deal with inspection bodies and/or their use of intervention direct.

This approach will be politically owned and led. There will be an important role for the Local Government Association (LGA) political groups in organising confidential feedback. The LG Group's Improvement Programme Board will monitor this and work with political party groups' improvement boards and Lead Member Peers. The Improvement Board, working with other LG Group programme boards, will receive regular reports on the overall performance of the sector and in particular discuss where there may be councils with performance challenges. It will seek reassurance that councils are taking the necessary action to improve and that the sector overall is providing the right level of support.

After the government-funded Regional Improvement & Efficiency Partnerships (RIEPs) come to an end councils may wish to create new arrangements to collaborate at local and sub regional level. The LG Group will welcome this and work with council groupings - which are likely to take different forms in different areas according to local choice – to take forward these proposals.

Consultation question

5. In terms of an “early warning system”.

- **What are the key early warning signals from a political perspective?**
- **How best is the activity undertaken at a national and sub-national level?**

3. Reducing the burden of inspection and reporting to Government

Whilst we welcome the abolition of CAA and monitoring through Government Offices we still want to see a further reduction in inspection and reporting burdens on councils - and we are continuing to lobby for this at national level. We will continue to press the government to bring to an end the annual performance assessment of children's and adult services currently undertaken by Ofsted and CQC.

However, we recognise the importance of specific reassurance around children's and adult services and particularly safeguarding and are therefore interested in hearing your views about whether external inspection on a rolling basis should continue on either an announced or unannounced basis. Alternatively you may feel that more robust peer challenge in these areas is sufficient along with the self-assessment we are suggesting for the council as a whole.

The LG Group will be seeking to expand the bank of member and officer peers in these areas and to be in a position to provide targeted direct support such as tailored packages, mentoring, team development and inter-agency work through use of specialist staff, associates and peers.

Consultation question

6. Is there still a need for inspection for adult and child safeguarding, or is a more robust approach to self assessment and peer challenge sufficient?

4. Local and central government

The Coalition Government has abolished Public Service Agreements (PSAs), is dismantling the national indicator set and has been silent about the future of Local Area Agreements (LAAs). Even so it is clear that Government will still want to achieve certain outcomes and have a way of assessing performance.

In order to limit the number of outcomes expected of local government, and in the absence of LAAs, we propose that the LGA (in consultation with councils) identify and agree with Government a small number of national outcomes (up to 5) that councils will deliver along with their local priorities. The national outcomes would be complemented by a small number of national indicators (up to 10). Councils would publish performance against the indicators locally.

Consultation question

7. Do you agree that, in order to limit the number of outcomes Government expects of councils, the LGA should seek to agree a small number nationally with government, following consultation with the sector?

Responses

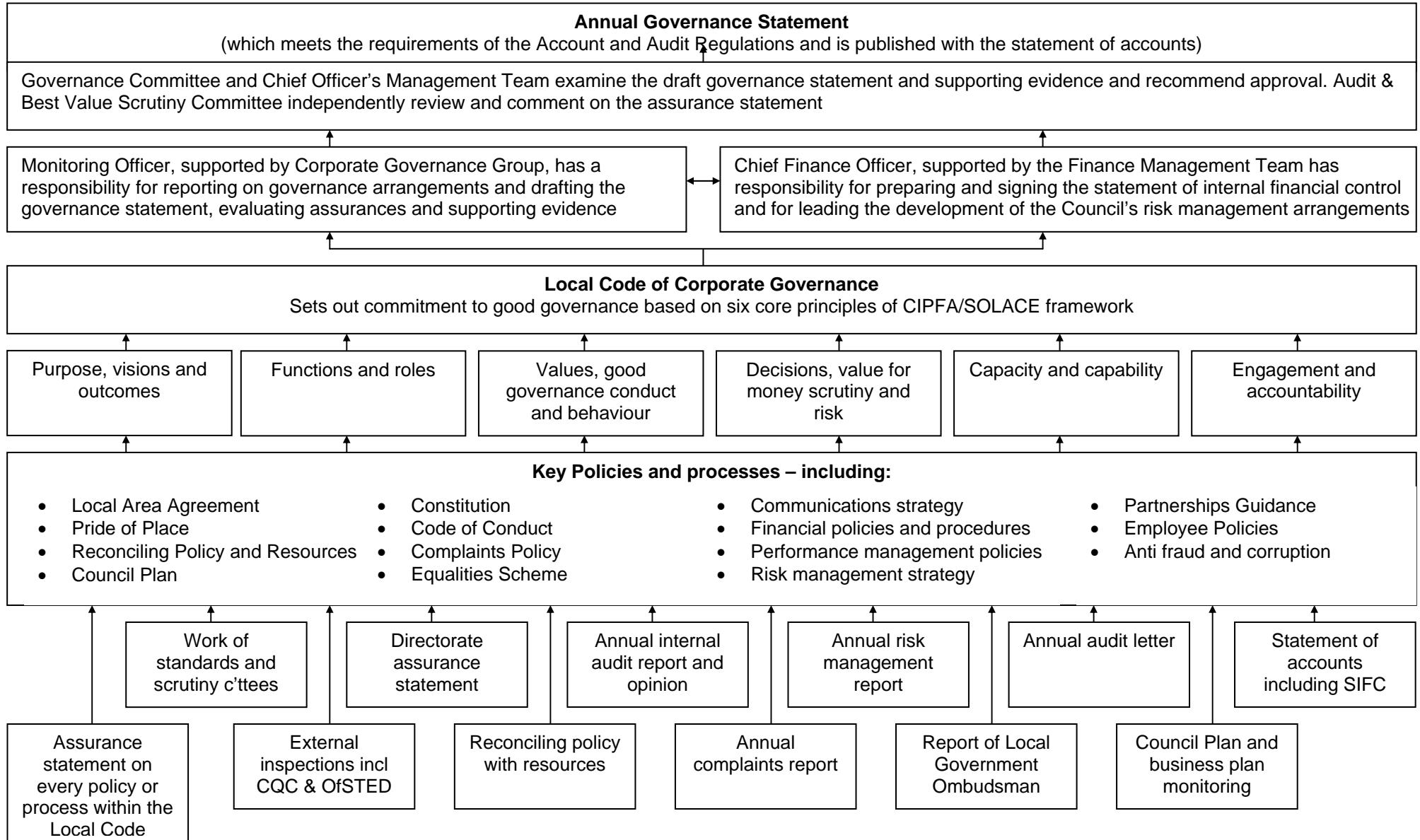
Please respond to Councillor David Parsons CBE, Chairman, Local Government Group Improvement Programme Board, by writing to him at:

Local Government Group
Local Government House
Smith Square
London SW1P 3HZ

or email sector.improvement@local.gov.uk

by **Monday 1 November 2010**.

ESCC Framework for the Annual Governance Statement



All of these sources and others provide assurance on the adequacy and effectiveness of our controls over key risks